

# HOUSE BUDGET COMMITTEE

## Democratic Caucus

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March 4, 2002

REVISED

## Return to Red Ink: Back to Budget Deficits

Summary and Analysis of the  
President's Fiscal Year 2003 Budget

*This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and may not necessarily reflect the views of all members.*

## **General Notes:**

- All years are fiscal years unless otherwise noted.
- Throughout the document, the Congressional Budget Office is abbreviated to CBO. The Office of Management and Budget is abbreviated to OMB.
- Unless otherwise noted, funding levels for discretionary programs are stated in budget authority, and funding levels for entitlements and other direct spending programs represent outlays.
- CBO's baseline estimate of what is needed to maintain purchasing power at the 2002 level has been adjusted upward to match the inclusion in the President's 2003 budget of all retirement pension and health costs for all federal employees beginning in 2003.
- Numbers in tables may not add due to rounding.

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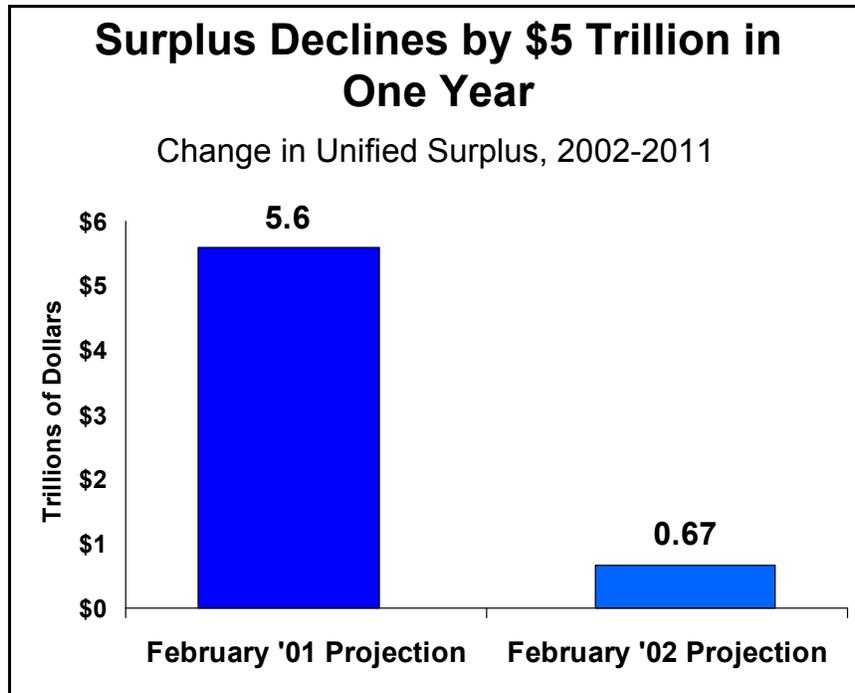
Charts and Graphs



## Overview

All Americans are united today in our war against terrorism. Democrats and Republicans stand foursquare with our President, committed to pay the price to safeguard our freedom, and to support our men and women in uniform. Democrats, unlike Republicans, do not believe that national security or homeland security must come at the expense of Social Security.

Last year, Republicans inherited a ten-year \$5.6 trillion unified surplus and a \$3.0 trillion non-Social Security surplus. In just eight months, \$4 trillion is gone, and this budget raises the total to \$5 trillion. The budget includes new tax cuts costing \$674.8 billion on top of the \$1.7 trillion tax cut from last year. The budget diverts \$1.5 trillion of the Social Security Trust Fund surplus and \$556 billion of the Medicare Trust Fund surplus. This is the most radical fiscal reversal in American history.



### The Tax Cut Is the Largest Single Cause of This Fiscal Reversal

By the budget's own accounting (Table S-16, page 415; this document, below), last year's tax cut is the largest single cause of the fiscal collapse — contrary to the assertions of some. The tax cut grows exponentially over its nine-year phase in, building a debt-service-cost bow wave year by year. And it is easy to see why the economic slowdown would be a smaller factor, given that the Administration projects an early recovery followed by strong growth. So over the ten-year window 2002-2011, as the Baby Boom begins to collect Social Security and Medicare benefits, the tax cut is responsible for 43 percent of the deterioration of the budget — greater than the effect of the economy, and far greater than the costs of the war against terror.

## Contributors to the Decline of the Surplus, 2002-2011, Administration Estimates

	Billions of Dollars	Percent of Total
Economic Reestimates	Not Provided	N.A.
Technical Reestimates	Not Provided	N.A.
Subtotal	1,345	39.4%
Enacted Tax Cut	1,478	43.3%
All Other Policy	591	17.3%
Total	3,414	100.0%

Source: *Budget of the United States Government, Fiscal Year 2003*, Table S-16, page 415.

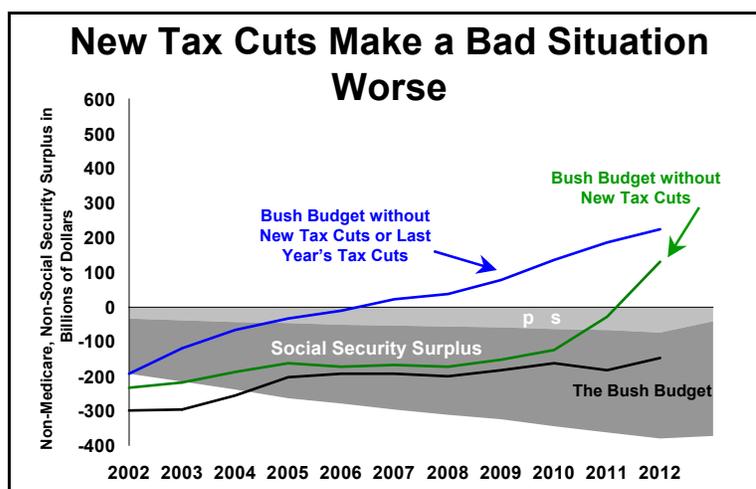
Note: Economic reestimates are changes in the budget outlook caused by changes in economic conditions. Technical reestimates are changes in the budget outlook caused by factors not expressly represented in the budget's economic assumptions, and by changes in estimating models intended to make them more accurate. Some of the amount of technical reestimates is indirectly related to economic conditions; some is not. The Congressional Budget Office always presents separate figures for economic reestimates and technical reestimates; the budget until this year has followed this practice. This year, the Administration chose not to reveal the separate amounts of economic reestimates and technical reestimates, instead labeling the sum of the two, "Economic downturn."

## The Republican Budget: A Missed Opportunity

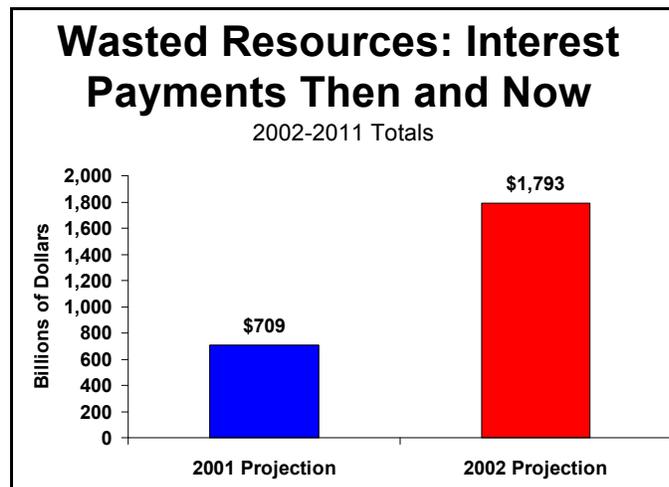
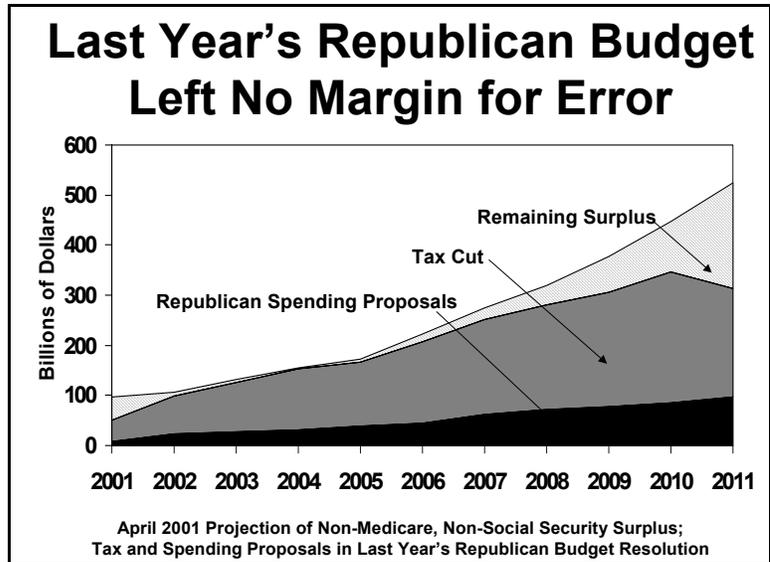
Even taken at face value, the Republican budget will remain in total deficit for the balance of the President's term of office, and it will continue indefinitely to rely on the Social Security and Medicare Trust Fund surpluses to finance the day-to-day operations of the federal government.

With no surpluses outside of those already earmarked for the Social Security and Medicare Trust Funds, those vital programs can

remain sound only through substantial benefit cuts or tax increases, or "off-balance-sheet" debt, as the recent Bush Social Security Commission made clear. So with their budget, which taps those Trust Fund surpluses as far as the eye can see, the Republicans have foreclosed any opportunity to reform and strengthen Social Security and Medicare.

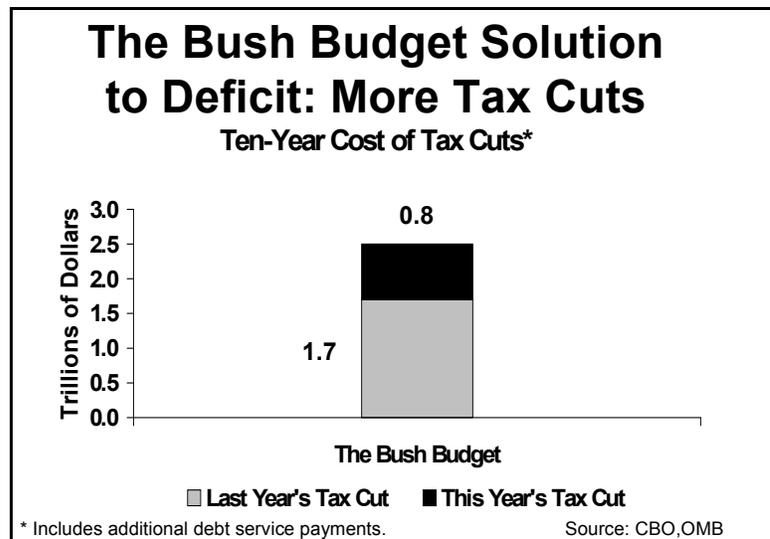


As Democrats warned one year ago, the Republicans bet the budget on the first Bush tax cut. Now, the budget is back in deficit, which has drained the nation's pool of savings, raising the cost of capital for the private sector and deterring business investment. As a result, economic growth and productivity growth will be slower, and the Treasury, far from paying off the nation's debt, has requested an expedited increase in the debt limit.



Because of this run-up in deficits and debt, the federal government's net interest costs over the next ten years will be \$1.1 trillion higher than was anticipated just a year ago. Those additional interest payments yield no benefit to the taxpayer. Instead of paying interest on already incurred debt, those resources could be saving Social Security and Medicare, providing prescription drug coverage for the elderly, improving education, or addressing other national needs.

But far from being chastened by last year's budget errors, and far from adjusting to the new costs of the war on terrorism, Republicans have come back with \$674.8 billion more in tax cuts — making their budget problem even worse. Yet they ignore once again the cost of solving the problem of the ballooning individual alternative minimum tax (AMT) — thus hiding future costs.



Republicans argue that with the budget in deficit, we need more tax cuts to strengthen the economy and reduce the deficit. But this is simply trickle-down Laffer-curve economics all over again: The government cuts \$1 in taxes, and assumes that it will get \$2 back. It failed in the 1980's, and it is failing again now.

## **The Republican Budget: Harmful Cuts**

The damage from the Republican program extends more broadly, to the national priorities that they shortchange or ignore because of their single-minded obsession with tax cuts.

The Republican “wartime budget” is really no different from last year’s peacetime budget. Compared with last year’s, this year’s Republican budget cuts the same national priorities, with the same ideological tilt toward those who need help the least, and against middle- and lower-income families struggling to make it.

The Republican budget fails to provide full disclosure. The budget presents aggregate numbers that suggest adequate funding for important priorities, but those totals are effectively exhausted by increases in defense and homeland security — leaving too little to meet other national needs.

At the level of individual programs, the budget touts significant increases in high-profile initiatives. But beneath the surface, these increases come at the expense of substantial cuts in other programs that may be less visible but are equally important.

For example, the Republican budget cuts the Low-Income Heating and Energy Assistance Program (LIHEAP) by 17.6 percent. To cover over a shortfall in the Pell Grant program, the budget imposes unspecified cuts of \$1.3 billion of funding already enacted for 2002 for education, health, and labor programs. It cuts funding for last year’s landmark No Child Left Behind bipartisan education bill. While touting a \$73 million increase for the Job Corps, the budget cuts other employment and training programs by \$686 million, or 12.1 percent. It cuts federal highway funding by 27.0 percent. Finally, the budget cuts funding for key environmental programs, including \$461 million from the Environmental Protection Agency. Other examples are presented in the analysis that follows.

The Administration claims that its proposed spending cuts are targeted solely toward obsolete, duplicative or inefficient programs, but its judgment here is selective if not questionable. Programs that the Administration favors for ideological reasons have not been subjected to rigorous scrutiny.

The Administration has requested reductions that members of its own party will not accept. Indeed, many of these cuts were already rejected by Republicans last year. Therefore, the Administration’s budget numbers will prove unattainable, and the deficit will prove even bigger than it now admits.

Furthermore, although the budget claims to provide a prescription drug program for the elderly, in reality it does not. Its ten-year funding is about one quarter (\$77.1 billion) the amount available for Medicare prescription drugs under last year's Republican budget resolution (\$300 billion). The budget not only under-funds prescription drugs, it retreats from Congressional pledges to provide a drug benefit to all beneficiaries. Instead, it provides immediate funding to states to provide coverage to low-income seniors only. The vast bulk of the elderly who need protection are left to rely on a discount card, which in effect squeezes funding out of pharmacists, and may be less valuable than private discount cards that some seniors already have.

We will have to live with the consequences of this budget long after the terrorists are gone. We owe it to our children, and to our parents, to consider the enduring consequences of our actions this year.

### Budget Summary

(In billions of dollars)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2003-2012</u>
Outlays:							
Discretionary:							
Defense	336	368	390	412	428	442	4,531
Non-defense	382	405	418	423	429	437	4,454
Subtotal, discretionary	718	773	808	835	857	880	8,984
Emergency Response	22	16	7	3	1	*	27
Fund							
Mandatory:							
Social Security	456	472	491	515	542	571	6,001
Medicare	223	231	241	257	278	302	3,141
Medicaid	145	159	170	184	200	217	2,315
Other mandatory	310	297	283	291	303	313	3,243
Subtotal, mandatory	1,133	1,159	1,185	1,248	1,323	1,402	14,700
Net interest	178	181	189	190	188	185	1,767
<i>Total Outlays</i>	<i>2,052</i>	<i>2,128</i>	<i>2,189</i>	<i>2,277</i>	<i>2,369</i>	<i>2,468</i>	<i>25,478</i>
<i>Receipts</i>	<i>1,946</i>	<i>2,048</i>	<i>2,175</i>	<i>2,338</i>	<i>2,455</i>	<i>2,572</i>	<i>26,481</i>
<b>Unified Surplus</b>	<b>-106</b>	<b>-80</b>	<b>-14</b>	<b>61</b>	<b>86</b>	<b>104</b>	<b>1,002</b>
<b>On-budget surplus</b>	<b>-262</b>	<b>-259</b>	<b>-208</b>	<b>-156</b>	<b>-142</b>	<b>-139</b>	<b>-1,464</b>

\* \$500 million or less

Source: *Budget of the U.S. Government, Fiscal Year 2003*, Table S-2, page 396

## **Broken Promises on Social Security, Medicare, and Debt**

"We're going to keep the promise of Social Security and keep the government from raiding the Social Security surplus. And to safeguard the system against long-term threats, I will form a Presidential commission to reform Social Security, and place it on firm financial ground."

President George W. Bush

*Posted on the White House website as of February 6, 2002*

A year ago, the President promised that his budget had room to do everything — provide a large and growing tax cut, save Social Security and Medicare, add a new prescription drug benefit for seniors, fund the nation's essential priorities, pay off the maximum amount of public debt, and still have a trillion dollars left for unforeseen needs. On March 27, President Bush underscored his confidence in his budget's prudence and credibility by saying,

...we can proceed with tax relief without fear of budget deficits, even if the economy softens. Projections for the surplus in my budget are cautious and conservative. They already assume an economic slowdown in the year 2001.

His budget even went so far as to claim that his projections could be too *pessimistic* and that an upward revision of the outlook was a greater concern than a downward revision. The Administration fretted that we might pay off the public debt too quickly.

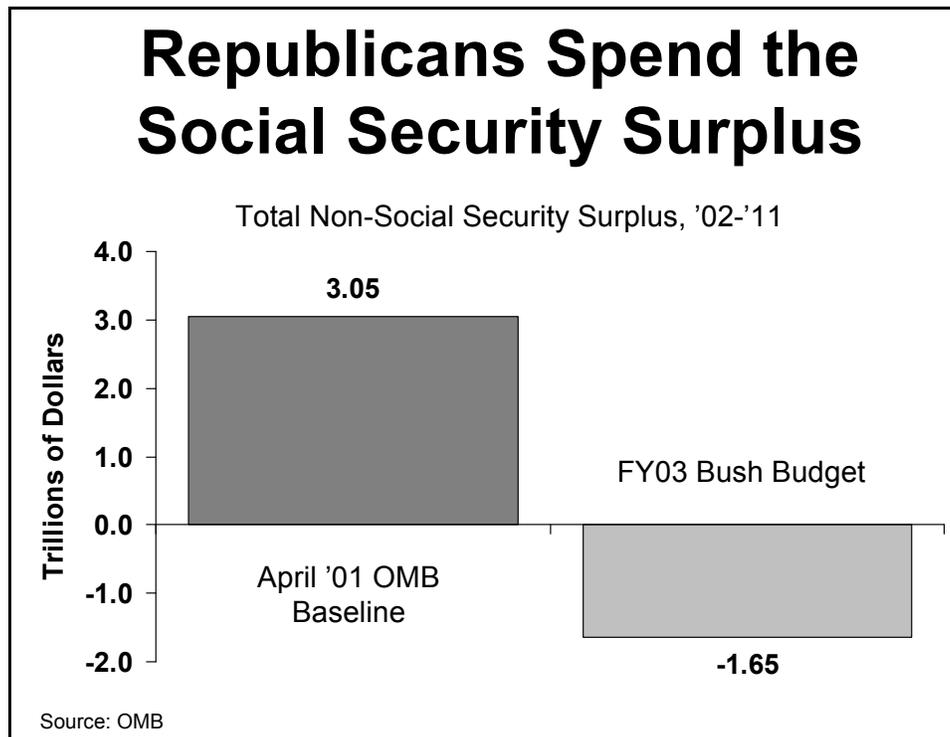
At the time, Democrats noted that the President's budget could only make these claims by engaging in double-counting, hiding costs off the books, and ignoring the fallibility of forecasts. We warned that the President's exploding tax cut left no room for error in the short run and drained resources that Social Security and Medicare would need when the Baby Boom generation began retiring in 2008. We argued that revenues already dedicated to Social Security and Medicare could not be used twice — once to fund the existing retirement programs and again to finance long-term reform, including a new prescription drug benefit. Democrats insisted that this double-counting meant that there was no contingency reserve in case budget forecasts proved too optimistic.

Regrettably, these warnings from a year ago now seem prescient. A startling \$5 trillion of the projected surplus has disappeared in a matter of months, with the largest single factor in the disappearance being the President's tax cut. Despite Republicans' declarations last year that only they could be trusted to protect both the Social Security and Medicare surpluses, those trust fund surpluses are now gone for the rest of the President's term.

Furthermore, the trillions of dollars of surplus outside of Social Security and Medicare that might have been used to strengthen those programs before the Baby Boom starts retiring in 2008 are gone as well. Whereas the President's budget last year at least pretended to put aside the resources needed for their privatization proposals, this year's budget merely expresses the fond hope that it will happen someday.

## Setting a Path for Benefits Cuts

The final report of the President's commission to privatize Social Security acknowledged that



there is no “free lunch” when it comes to making the program sustainable for the long-term. The same holds true for Medicare. The commission agreed with Democrats that the surpluses Social Security and Medicare currently generate cannot be used twice — once to underwrite the benefits already promised in law and again to address the shortfall foreseen for coming decades.

The President's privatization commission recognized that, in the absence of an infusion of outside resources, benefits would have to be cut significantly to make the system sound for the long-term. Most reform proposals would require something like \$1 trillion of resources from outside Social Security over the next ten years to put the program on a sustainable basis, whether or not that reform was based on private accounts invested in the stock market. Now, Republican budget mismanagement has squandered both the Social Security and Medicare trust fund surpluses themselves and the surpluses outside of Social Security that might have been used for long-term solvency.

The Administration's budget policies therefore put Social Security and Medicare on a course risking severe benefit cuts when the Baby Boom generation retires. Currently, the Social Security trust fund faces insolvency in 2038, and the Medicare trust fund will become insolvent in 2029. In the absence of reform, Social Security revenues will cover only 73 percent of benefits promised in 2038, when the trust fund runs dry. Clearly, benefit cuts of that size would be intolerable.

A year ago, when Republicans were worrying about the dangers of paying off the public debt too quickly, Democrats saw an opportunity to take an interim step towards long-term sustainability for Social Security and Medicare. We advocated saving both the Social Security and Medicare surpluses exclusively for debt reduction as the most prudent use of these resources. Republicans seemed to join us in the desire to save these trust fund surpluses, and pushed endless lock-box proposals as evidence of their resolve.

Now, the publicly held debt is again rising, and the Treasury Secretary has had to ask for an urgent increase in the statutory limit on debt as a result. The Administration has predicted — somewhat optimistically — that the debt will soon start down again. However, even if the Administration's predictions come true, we still will be spending the Social Security and Medicare trust fund surpluses for the next decade and beyond. The Administration squandered last year's golden opportunity to put these two bedrock programs for the elderly on a sound footing for decades to come.

## Tax Cuts for All Occasions

The figures in Table S-16 of the Administration's own budget confirm that last year's tax cut was the largest single factor in the deterioration over the last eight months of the ten-year budget surplus, accounting for 43 percent of the decline. Nonetheless, the Administration's budget includes an additional \$674.8 billion in tax cuts over the next decade. The total impact of these additional tax cuts on the ten-year surplus is about \$800 billion once one includes the added spending for interest on the national debt that they would trigger. At a time when the war on terrorism and homeland security have prompted the Administration to claim that the budget must short-change other priorities, the emphasis on additional tax cuts seems misplaced.

As if this were not sufficiently troublesome, the President's budget seriously understates the true costs of Republicans' ambitious tax cutting agenda. Once all the tax cuts that the President favors but has not included in his budget are included in the tab, the cost rises even higher. When all the popular expiring tax cuts that are likely to be renewed are included as well, the costs go higher still. Acknowledging tax problems that will have to be fixed, like the individual alternative minimum tax (AMT), pushes the totals even higher. Projecting the costs of all these items out into the decade beyond the ten-year budget forecast window when the Baby Boom's retirement is in full swing is truly worrisome.

### The President's Tax Proposals

Billions of Dollars, OMB Estimates

	<u>2002</u>	<u>2003</u>	<u>2003-07</u>	<u>2003-12</u>
<b>ECONOMIC STIMULUS</b>	<b>89.0</b>	<b>73.0</b>	<b>96.5</b>	<b>53.0</b>
<b>MAKING POLICY THROUGH THE TAX CODE</b>	<b>0.8</b>	<b>4.9</b>	<b>85.1</b>	<b>202.5</b>
<b>Tax incentives for charitable contributions, total</b>	<b>0.8</b>	<b>2.0</b>	<b>15.5</b>	<b>40.2</b>
Above-the-line deduction for charitable contributions	0.6	1.4	12.3	32.6
Tax-Free IRA withdrawals for charitable contributions	0.1	0.2	1.1	2.6
Increase cap on corporate charitable contributions	0.0	0.2	0.7	1.7
Modify taxation of private foundation investment income	0.1	0.2	1.0	2.1
Other incentives for charitable contributions	0.0	0.1	0.4	1.1
<b>Education tax provisions</b>	<b>0.0</b>	<b>0.2</b>	<b>4.3</b>	<b>6.1</b>
Credit for costs of leaving failing public schools	0.0	0.2	3.7	4.4
Deduction for teachers' out-of-pocket expenses	0.0	0.0	0.6	1.7
<b>Health tax provisions</b>	<b>0.0</b>	<b>1.6</b>	<b>46.7</b>	<b>127.8</b>
Refundable credit for health insurance	0.0	0.9	35.6	89.0
Above-the-line deduction for long-term care premiums	0.0	0.3	4.7	20.7
Carry-forward for health flexible plans	0.0	0.0	2.8	7.8
	<u>2002</u>	<u>2003</u>	<u>2003-07</u>	<u>2003-12</u>

Modify treatment of unused benefits for health flexible plans	0.0	0.0	0.2	0.6
Permanent extension of MSAs	0.0	0.0	1.6	5.7
Higher personal exemption for family caretakers	0.0	0.3	1.8	4.0
<b>FFARM savings accounts</b>	<b>0.0</b>	<b>0.0</b>	<b>0.9</b>	<b>1.2</b>
<b>Tax credits for developers of affordable housing</b>	<b>0.0</b>	<b>0.0</b>	<b>2.4</b>	<b>15.3</b>
<b>Individual development accounts</b>	<b>0.0</b>	<b>0.1</b>	<b>1.3</b>	<b>1.7</b>
<b>Brownfields remediation and conservation sales</b>	<b>0.0</b>	<b>0.0</b>	<b>1.4</b>	<b>3.3</b>
<b>Tax incentives to increase energy production</b>	<b>0.3</b>	<b>0.7</b>	<b>5.4</b>	<b>9.1</b>
Modify credit for electricity from certain sources	0.1	0.2	1.0	1.8
Credit for residential solar energy	0.0	0.0	0.1	0.1
Modify treatment of nuclear decommissioning	0.1	0.2	0.9	2.0
Credit for hybrid and fuel cell vehicles	0.0	0.1	1.9	3.0
Credit for energy from landfill gas	0.0	0.0	0.4	1.1
Credit for combined heat and power property	0.1	0.2	1.1	1.1
Excise tax exemption for ethanol	0.0	0.0	0.0	0.0
<b>Modify unemployment insurance administrative financing</b>	<b>0.0</b>	<b>1.0</b>	<b>12.8</b>	<b>6.9</b>
<b>EXTENSIONS OF EXPIRING TAX PROVISIONS</b>	<b>1.6</b>	<b>3.1</b>	<b>25.6</b>	<b>408.4</b>
<b>2-yr extension of provisions that expired in 2001</b>	<b>1.4</b>	<b>2.5</b>	<b>4.1</b>	<b>4.3</b>
Work opportunity credit	0.0	0.2	0.6	0.6
Welfare-to-work credit	0.0	0.0	0.2	0.2
Modify individual AMT	0.1	0.4	0.6	0.6
Subpart F financing	0.9	1.5	2.1	2.1
Modified limitation for depletion of marginal oil and gas wells	0.0	0.0	0.1	0.1
Generalized system of preferences (GSP)	0.4	0.4	0.4	0.4
Qualified zone academy bonds	0.0	0.0	0.1	0.3
<b>Permanent extension of provisions expiring in 2010</b>	<b>0.2</b>	<b>0.6</b>	<b>7.4</b>	<b>353.0</b>
Individual income tax rate reductions	0.0	0.0	0.0	183.8
Child tax credit	0.0	0.0	0.0	40.4
"Marriage penalty" relief	0.0	0.0	0.0	14.5
Education incentives	0.0	0.0	0.1	2.8
Repeal estate taxes and modify gift taxes	0.2	0.6	7.3	103.7
Modify IRAs and pension provisions	0.0	0.0	0.0	6.5
Other provisions expiring in 2010	0.0	0.0	0.0	1.3
<b>R&amp;E credit extension</b>	<b>0.0</b>	<b>0.0</b>	<b>14.1</b>	<b>51.1</b>
<b>Other proposals affecting revenues</b>	<b>0.1</b>	<b>0.3</b>	<b>0.9</b>	<b>1.8</b>
<b>TOTAL COST OF THE PRESIDENT'S TAX PROPOSALS</b>	<b>91.9</b>	<b>82.0</b>	<b>213.5</b>	<b>674.8</b>

## **The President's Putative "Economic Stimulus" Package**

The President's budget includes an economic stimulus package but does not supply programmatic details for the package. Instead, the budget insists that the package be based on five general initiatives: (1) an acceleration of phased-in tax reductions in last year's enacted tax cut; (2) tax rebates for lower-income individuals and families, perhaps including those who did not receive rebates last year; (3) extending unemployment insurance benefits beyond the usual 26 weeks; (4) repealing the corporate alternative minimum tax (AMT); and (5) accelerated depreciation or bonus expensing of investment in business equipment.

These principles for economic stimulus roughly parallel the two stimulus bills (H.R. 3090 and H.R. 3259) that the House passed on near party-line votes late last year. The Administration spoke approvingly of these two bills, though it did not necessarily endorse every specific provision in them. In particular, the President backed away from the retroactive repeal of the corporate AMT in H.R. 3090, which would have had taxpayers cutting checks to profitable corporations for past AMT payments extending back to 1986. Instead, the Administration announced that it favored "prospective" repeal, in which past AMT payments would be returned to corporations over coming years.

Democrats have endorsed three of the President's proposals, particularly an extension of unemployment insurance benefits and tax rebates for those taxpayers who did not get rebates last year. A January 2002 CBO analysis of various possible economic stimulus proposals found that the latter "would target much of the tax cut toward lower-income households, which, evidence suggests, tend to spend more of any additional income they receive than do higher-income households." CBO predicted that this would have a moderately stimulative effect on the economy. CBO did not analyze the extension of unemployment benefits, but such extensions have always been enacted in past recessions, partly for humane reasons and partly because the unemployed are also likely to spend the additional income and provide stimulus.

The other three parts of the President's stimulus proposal did not fare as well in the CBO analysis. With regard to accelerating the rate cuts in last year's tax bill, CBO wrote, "...the first-year stimulus that this proposal would generate relative to its total revenue loss is probably small." Furthermore, it noted that, because the cost would extend through 2005, the stimulus effect "is purchased at a substantially higher total loss of revenues over the life of the provision."

Similarly, CBO found little to recommend the President's proposal to repeal the corporate AMT, writing,

...eliminating the AMT does little by itself to change the near-term incentive for businesses to invest. Its bang for the buck is small because it is primarily a reduction in taxes on the return from capital that is already in place, not an incentive for new investment. In particular, the refunding

of the accumulated AMT credits, a feature of some proposals, would involve substantial costs without providing any significant incentive to increase investment.

The proposals for accelerated depreciation or bonus expensing of equipment investment are something of a mixed case, depending on the length of time the benefit is available. Most Democrats prefer such investment incentives for a limited period, but the President and Congressional Republicans favor having the incentives in force for three years or more. The problem with these Republican proposals is noted in the CBO analysis, which states,

The bang for the buck from the partial expensing proposal would be moderate—but only for a temporary version of the incentive. Extending the period under which expensing could be used would reduce the option's cost-effectiveness because it would decrease businesses' incentive to invest in the first year and increase the total revenue cost.

The budgetary cost of the President's proposals for multi-year investment incentives also is probably understated because of likely political pressure to extend them when they are scheduled to sunset. As seen in the above table, the cost of the President's "stimulus" proposals is ostensibly smaller in the second five years than in the first five years. This is because the bonus period would bring forward depreciation deductions, which would increase business tax payments thereafter when those deductions will no longer be available. However, there would be considerable political pressure to keep in place such attractive corporate tax breaks when they are scheduled to expire three years from now, as many Republicans have proposed. If such tax breaks were made permanent, the cost would be considerably higher than the Administration estimates, perhaps by a factor of three or four.

Democrats believe that these Administrations proposals would not effectively stimulate the economy, would help those who need help the least, and would further jeopardize the long-term fiscal outlook. The nonpartisan CBO agrees that the corporate tax breaks being pushed by the Administration would have only a minimal stimulative impact. These corporate tax breaks also would go overwhelmingly to profitable corporations that already are weathering the recession well, and would reward businesses for past investments rather than new ones. Finally, these tax breaks would have large ten-year costs, which would worsen an already serious fiscal outlook.

## **Making Policy Through the Tax Code**

Last year, President Bush decried "targeted tax cuts," which he said attempted to pick winners from Washington and to direct taxpayers' behavior. This year, the budget proposes more than two dozen separate changes of the tax code based upon taxpayers' behavior with respect to charitable giving, educational choices, health care, farming, housing, retirement saving, the

environment, and energy. These proposals were not included in last year's \$1.35 trillion enacted tax cut.

## Understating the Cost of Extending Expiring Tax Provisions

The President's proposals to extend various provisions of the tax code fall into two categories: (1) extension of provisions that expired in 2001, like the welfare-to-work and work opportunity credits, that are among a set of popular provisions that Congress has routinely renewed in the past and (2) extension of some, but not all, of the provisions of last year's Republican tax cut. In addition, the budget proposes prospectively to extend the research and experimentation (R&E) tax credit, and extend or modify a small number of other provisions relating to trade, energy or the environment. The budget extends provisions that lapsed in 2001 for only two years, while making some components of last year's controversial tax cut permanent. However, there are significant elements of last year's tax cut and a variety of other popular expiring tax provisions that the Administration's budget ignores.

<b>Selective List of Expiring Tax Provisions Not Addressed in the FY 2003 Budget</b>		
<b>Tax Provision</b>	<b>Expiration Date</b>	<b>Revenue Cost 2003-2012</b>
Rum Excise Tax Revenue to Puerto Rico and Virgin Islands	12/31/2001	0.7
Corporate Contributions of Computers to Schools	12/31/2003	1.3
Depreciation for Business Property on Indian Reservations	12/31/2003	3.5
Tax Incentives for Investment in the District of Columbia	12/31/2003	1.7
Increased AMT Exemption Amount	12/31/2004	139.4 - 167.0*
Deduction for Qualified Education Expenses	12/31/2005	21.2
Puerto Rico Business Credits	12/31/2005	11.9
Credit for IRA and 401(k)-Type Plans	12/30/2006	6.4
New Markets Tax Credit	12/30/2007	2.3
Empowerment and Renewal Zones	12/31/2009	4.2

\*Involves substantial interaction costs depending on other provisions extended.

The short, two-year extension of so-called "extenders" that expired in 2001 does not provide a full accounting of the cost that these provisions will have for the long-term budget. And when the Administration ignores the other popular expiring provisions that have been routinely

extended in the past, this too tends to overstate surpluses that will actually be available over the next ten years. Democrats generally favor extension of the expiring tax benefits that have been in the code for years but believe that credible budgeting requires that the long-term cost should be recognized, because the provisions will almost certainly be extended again in the future.

The true cost of extending expiring tax provisions could be significant. For example, CBO estimated in its January budget outlook that extending *all* expiring tax provisions, including *all* those in last year's tax bill, would reduce revenue over the next decade by \$734.7 billion, almost twice as much as the \$408.1 billion figure in the preceding table.

The cost in the budget of making most of last year's tax cut permanent accounts for 60 percent of the ten-year cost of the budget's tax proposals, according to the Administration's estimate. Here again, though, the Administration's cost estimate understates the likely true cost. The President proposes making permanent only those provisions of last year's tax cut that expire at the end of 2010. But the increase in the exemption for the individual AMT, the deduction for qualified education expenses, and the expansion of IRAs and 401(k)s in last year's tax act all expire before 2010. Thus, the cost of extending these provisions of last year's tax cut along with the others is not shown in the President's budget.

## **The Long-Term Impact of the President's Acknowledged and Unacknowledged Tax Policies**

In his State of the Union address, the President said without qualification that he wanted to make last year's tax cut permanent. However, the Administration's budget for this year does not fully reflect the true scope of the President's tax cutting agenda. Truly making permanent *all* of last year's tax cut, plus acknowledging the likelihood that *all* of the other expiring tax provisions will be extended, would have profound and dire consequences for our fiscal health.

The impact of the President's complete tax agenda on the subsequent ten years is truly overwhelming. For instance, just making last year's tax cut permanent, as Republicans advocate, would drain \$4 trillion from the budget between 2013 and 2022. Permanent extension of all the other various expiring tax provisions could add trillions more. Extending the other expiring tax provisions into the second decade of this century would only add to this significant cost.

On top of that, there is yet another costly tax problem lurking in the code that the Administration's budget numbers do not acknowledge. The number of taxpayers subject to the individual AMT will grow from about 2 million today to 39 million — 34 percent of taxpayers with positive income tax liability — by 2012 under the President's policies, as noted on page 77 of the budget's *Analytical Perspectives*. This tax was originally intended to apply only to the very affluent, who often use tax shelters to escape any tax liability. But, if the AMT remains

unchanged, millions of middle-class families will be subject to this tax. Families with children would be especially hard hit, including more than half of all families of four.

Clearly, Congress will not allow this to happen. Unfortunately, the cost of keeping the number of tax filers subject to the individual AMT about where it is now is very high. In large part, this is due to the AMT's powerful interactions with the Republican tax cut passed last year. Many taxpayers who might be expecting tax reductions from last year's tax cut will be sorely disappointed when they see those tax cuts taken away by the AMT. Estimates of how much it would cost to "fix" the AMT depend upon the exact approach taken to address its weaknesses. However, a conservative estimate would be about \$400 billion over the next decade and two or three times that much over the subsequent decade.

Hiding the costs of all these elements of the President's tax agenda "off the books" seriously jeopardizes our nation's finances just as the Baby Boom's retirement is about to put significant pressures on the budget.

## **User Fees**

In the budget debates from 1993 through 2000, Republicans repeatedly attacked President Clinton for proposing "tax increases" in the form of "user fees." In this year's budget, the Administration proposes 23 new "tax increases" in the form of "user fees," totaling \$10.4 billion over five years. These new and increased user fees include food inspection fees, patent and trademark fees, export promotion fees, Medicare provider fees, prescription drug review fees, visa fees, commodity trading fees, Federal Trade Commission fees, hazardous materials transportation fees, railroad fees, Coast Guard navigational assistance fees, Customs Service fees, veterans health care fees, EPA pre-manufacturing notification fees, Nuclear Regulatory Commission fees, Federal Emergency Management Agency flood insurance fees, Forest Service ski permit fees, Forest Service recreation and entrance fees, Corps of Engineers recreation fees, and Federal Communications Commission analog spectrum leasing fees. Many of these new and increased user fees are discussed in the budget function sections later in this analysis.

## **Budget Gimmicks: What You See Is Not What You Get**

### **The Budget Forgot the Second Five Years**

Last year, Republicans relied on ten-year budget projections of growing surpluses to justify their \$1.7 trillion tax cut. Indeed, the Administration assured us that its surplus projections were much more likely to prove pessimistic than optimistic.

There has been considerable public discussion of the potential downside risks to the surplus projections. However, the greatest “risk” to accurate forecasting in recent years has been on the upside as a result of stronger than expected revenue growth and weaker than expected outlay growth. Revenues have contributed most to surplus underestimates...

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This year, rhetorically, the budget appears to have learned its lesson.

The events of last year underscore the difficulty of making reliable budget estimates even one year ahead.

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But this lesson proves to be only partly learned. Logic might suggest that the uncertainty of long-range projections would dictate prudence with respect to future commitments. Instead, the Administration proposes far more tax cuts — effective in years for which it does not have the confidence, according to its own words, even to present budget numbers. The budget proposes to make permanent the enacted tax cut — a policy that would largely take effect after 2010, or three years beyond the five-year limit of their budget numbers, which end in 2007. Yet in the decade from 2011 through 2020, this policy could commit the federal government to a loss of tax receipts and interest that would exceed \$4 trillion. In addition, the budget endorses the misguided House-passed stimulus bill, and proposes several smaller additional tax cuts.

Whether budget projections are presented for five years or ten years, or for some other duration, it is up to policymakers to act prudently. Policies whose costs explode just beyond a projection

window do damage, no matter how long that window may be. Policies that spend every dime of projected available surplus entail risks, no matter how many years the projections represent.

### **“We Will Cut Spending — the Year After Next”**

The budget text exhorts the country to cut federal spending in the interests of the war effort, and the proposals for this year do sacrifice many important domestic priorities (as the following analysis documents). But the degree of spending restraint proposed for subsequent years is far greater than that proposed for 2003, as non-defense appropriated outlays are slated to grow by \$23 billion in 2003, but only \$13 billion in 2004, \$5 billion in 2005, and \$6 billion in 2006. Those increases are far below the amounts necessary to maintain constant purchasing power and keep up with the growing needs of a growing population. If spending is kept to those totals, then the quality and quantity of government services will decline. If it is not, then the projected budget deficits will be even worse than stated in the budget.

### **Omitting Future Costs**

While the budget proposes commitments to substantial future tax cuts, it ignores the cost of repair of the ballooning individual alternative minimum tax (AMT). Even before the enacted tax cut of last year, the number of taxpayers subject to the AMT was projected to grow from about 1.5 million in 2001 to about 17.5 million in 2010, and these are moderate-income taxpayers who happen to have relatively large families or to live in high-tax states, not heavy users of tax shelters. Under the budget’s policies, however, the Administration estimates that the number of affected taxpayers will rise to about 39 million in 2012 (*Analytical Perspectives, Budget of the United States Government, Fiscal Year 2003*, page 77). This additional paperwork and financial burden is recognized by all tax experts as wholly unacceptable. Yet the partial and inadequate AMT fix provision in the enacted tax bill is one of only three parts of the bill that the Administration chose not to extend. Inadequate though it may be, extending the provision over ten years (2003-2012) would cost somewhere between \$139 billion and \$167 billion (depending upon interactions with other provisions extended), according to CBO.

There are other likely future costs of extending expiring tax provisions that are omitted from the proposed budget. The budget would extend seven popular tax benefits that expired in 2001, but for only two years; the costs of likely further extensions are omitted. Numerous other provisions that will expire in the next few years were likewise ignored. Those costs are likely to hit the budget, and omitting them merely instills a false sense of safety.

### **A Hopeful Medicare Baseline**

The budget’s projection of Medicare spending under current law over the next ten years (2003-2012) is about ten percent lower than CBO’s projection for the same period. Though private employers and insurers are now experiencing an upsurge in health inflation, OMB projects that

Medicare cost growth will slow over the next decade. It would be a blessing if such cost relief were to occur with no change in the law, and no sacrifice in terms of coverage or quality. But to assume such savings, and then to commit those resources to larger tax cuts before the savings could be confirmed, would seem imprudent.

### **Social Security Reform Absent**

The President has repeatedly advocated his own approach of Social Security privatization. Others might prefer alternatives, but the transition to any of the widely discussed Social Security solvency plans would cost roughly \$1 trillion over ten years. There is no recognition in the budget of such future costs — or of the fact that, after last year’s policies, there is no money to pursue Social Security reform.

The long-term situation of Medicare is analogous. The budget does include a sum for Medicare “modernization.” However, there is no policy content behind that sum; and the budget also proposes a prescription drug benefit for the elderly that is woefully underfunded, more than negating any value from the “modernization” funding.

### **Spending the Social Security and Medicare Trust Fund Surpluses**

Finally, the budget has dissipated last year’s projected budget surplus to the point where the Social Security and Medicare Trust Fund surpluses are consumed to finance the day-to-day operations of government — rather than used to retire the public debt, as was promised by Republicans in their “lockbox” proposals of last year. If the nation is not saving — by retiring debt in the amount of those Trust Fund surpluses — then there is less prospect of a smooth absorption of the inevitable economic costs of the retirement of the Baby Boom. The budget thus postpones and hides even more future costs.

# Medicare Overview

## Medicare Trust Fund Surplus

- ***Denying the Surplus in the Medicare HI Trust Fund*** — The budget continues to deny that a Medicare HI Trust Fund surplus exists. Like last year, the budget explains Medicare financing in a manner that incorrectly portrays the use of general revenues as a deficit instead of a subsidy designed as a benefit to protect seniors from the high cost of health care services. Although the budget ignores the Medicare Trust Fund for rhetorical purposes, it uses virtually all of its surplus over the next ten years to finance priorities such as additional tax cuts. For a broader discussion of the use of the Medicare Trust Fund, see *Broken Promises on Social Security, Medicare, and Debt*.

## Low Medicare Growth Rate Shrinks Spending Painlessly

- ***Slow Medicare Growth Masks Size of Overall Budget Deficits*** — The budget's projection of Medicare spending under current law over the next ten years (2003-2012) is surprisingly lower, about ten percent, than CBO's projection for the same period. Over the next decade, OMB projects that Medicare costs are increasing more slowly even while private employers and insurers are experiencing an upsurge in health inflation. OMB also projects this slower growth over this period that includes the time when Baby Boomers become eligible for Medicare. OMB's Medicare growth rate appears to fly in the face of reality.

Regardless of the reasons why OMB used the low growth rate to project its Medicare spending over the next decade, the effect of the lower growth rate is clear. Using a slower growth rate results in a projection of Medicare spending that is significantly lower than it would be otherwise. In turn, the lower spending projections in Medicare reduce the overall amount of spending that the federal government appears to require. Thus, the size of the deficit appears smaller than it would if OMB used more realistic growth rates to project Medicare spending over the next decade.

## No Real Prescription Drug Benefit and No Real Medicare Reform

- ***Unspecified Medicare Reform and Inadequate Prescription Drug Coverage*** — The President's 2003 budget includes \$190.2 billion over ten years (2003-2012) to reform Medicare and provide immediate assistance to states providing prescription drug coverage to low-income seniors. Of the \$190.2 billion included in the budget, \$77.1 billion is for state-sponsored prescription drug programs. Last year's Republican budget resolution included \$300 billion for these purposes. Like last year's budget, this one does not outline the planned Medicare reforms and fails to provide a Medicare prescription drug benefit to all seniors.

The budget includes immediate funding in 2003 for the prescription drug assistance to the states. The funding for the undefined reform and modernization plan is not available until 2006. For more specifics on the Medicare budget, see *Function 570 (Medicare)*.

## Budget Process Changes

- ***Discretionary Spending Caps and PAYGO*** — Current law contains discretionary spending caps to set limits on appropriations and Pay-As-You-Go (PAYGO) provisions to require that increases in mandatory spending and tax cuts be completely offset by either decreases in other mandatory spending or tax increases. The overall discretionary spending caps and the PAYGO provisions have been extended twice since their enactment in 1990 and are scheduled to expire October 1, 2002. The President's budget assumes extension of discretionary spending caps to be consistent with the President's 2003 requests for discretionary spending and extension of PAYGO requirements to carry out the budget's proposals for mandatory spending and receipts. The budget, however, does not specify how long the spending caps and PAYGO provisions should be extended. Both extensions require action by Congress.
- ***Joint Budget Resolution*** — The budget assumes the change of the congressional budget resolution from a concurrent resolution, which does not require the President's signature, to a joint resolution, which would require the President's signature.
- ***Line-Item Veto*** — The budget assumes enactment of a constitutional line-item veto that would be linked to debt reduction. This proposal allows the President to cancel specific new appropriations, new mandatory spending, or new limited tax benefits that the Administration deems nonessential.
- ***Biennial Budgeting and Appropriations*** — The budget endorses the concept of biennial budgeting by advocating that Congress pass budgets and regular appropriations bills only every two years in non-election years.
- ***Reclassifying Mandatory Programs*** — The budget reclassifies three programs from mandatory to discretionary. The programs include the Federal Direct Student Loan Fund Program's administrative expenses, the Corps of Engineers' Power Marketing receipts, and FEMA's flood insurance premiums. The budget's reclassification of these programs subjects them to the annual appropriations process.
- ***Automatic Continuing Resolution*** — The budget assumes enactment of an automatic continuing resolution that would fund programs at the lower of either the President's budget or the prior year's level if an appropriations bill is not signed by October 1 of the new fiscal year.

## Defense and the Budget

A summary and analysis of the programs within the 2003 budget for national defense is contained in *Function 050 (National Defense)*. This section instead discusses the following issues:

- (1) Understanding several accounting changes in order to measure the true 2003 increase for defense;
- (2) Viewing the 2003 budget's defense increases from an historical perspective; and
- (3) Assessing the impact of the defense increases on the surplus, again taking into consideration the accounting changes.

### The Increase in the 2003 Budget for the Department of Defense (DOD)

Determining the 2003 increase for DOD is complicated by two different accounting changes that have no programmatic effect but cause a top-line increase in the DOD budget. The net result of these two changes is a \$5.4 billion increase in the DOD budget that does not permit DOD to purchase more equipment, hire more people, or operate at a higher rate. These accounting changes are described in greater detail below.

<b>Determining the Nominal Programmatic Increase for DOD</b> (Budget Authority in Billions of Dollars)	
2002 Enacted Level	331.2
2003 Budget	379.3
Apparent Increase	48.1
<i>Less: Adjustments for Accounting Changes</i>	<u>-5.4</u>
Programmatic Increase for DOD	42.8

*Numbers do not add exactly due to rounding.*

As the table indicates, without making any adjustments for non-programmatic accounting adjustments, the DOD 2003 budget is \$48.1 billion (14.5 percent) more than the 2002 enacted level.

However, with the non-programmatic accounting adjustments and including the \$10 billion reserve for antiterrorism operations for 2003, the increase over the DOD 2002 enacted level is \$42.8 billion (12.8 percent). This is \$33.5 billion (9.8 percent) more than needed, according to CBO, to maintain purchasing power at the 2002 level.

If the \$10 billion reserve is excluded, the increase is \$32.8 billion (9.8 percent) over the 2002 enacted level. This is \$23.5 billion (6.8 percent) more than needed, according to CBO, to maintain purchasing power at the 2002 level.

- **Accounting Change Due to Tricare-for-Life Implementation** — The 2001 Defense Authorization Act established the Tricare-for-Life program, and it has two major impacts on the 2003 DOD budget. First, beginning in 2003, it funds the cost of providing medical care for Medicare-eligible military retirees as an entitlement from another part of the budget (Function 550, Health) rather than out of DOD appropriations. According to CBO, this saves DOD approximately \$5.9 billion for 2003.<sup>1</sup>

Second, again beginning in 2003, the law mandates accrual accounting in current budgets for future health care costs that will occur when current military personnel become eligible for Tricare-for-Life. This accrual payment is \$8.1 billion, but it is not a programmatic increase and it cannot be used for any other purpose (such as purchasing equipment or hiring additional personnel). In short, the Tricare-for-Life law saves DOD \$5.9 billion that can be used now for other purposes, but also increases military personnel accrual payments by \$8.1 billion. The net result is that \$2.2 billion (the difference between \$5.9 billion and \$8.1 billion) of the overall DOD increase is not programmatic.

- **Change to Accrual Accounting for DOD Civilians** — Besides the Tricare-for-Life accrual issue discussed above, the Administration proposes to ensure that all retirement benefits for civilian federal employees (including those who work for DOD) are fully included under accrual accounting practices (see *Appropriated Programs* for further information). The DOD share of this accounting change is \$3.3 billion for 2003 (and would have been \$3.2 billion for 2002).

#### **The \$5.4 Billion Adjustment for Comparability**

In the table on the preceding page, the \$5.4 billion adjustment that solely reflects accounting changes is the combination of the net adjustment for Tricare-for-Life and the adjustment for accrual accounting for DOD civilian employees. Because the 2002 DOD total is adjusted for comparability with the 2003 DOD budget for the accrual accounting change for DOD civilians, the adjustment is \$3.2 billion rather than \$3.3 billion. Thus, this \$3.2 billion adjustment and the Tricare-for-Life net adjustment of \$2.2 billion add up to a total adjustment of \$5.4 billion. The table summarizes the total adjustment:

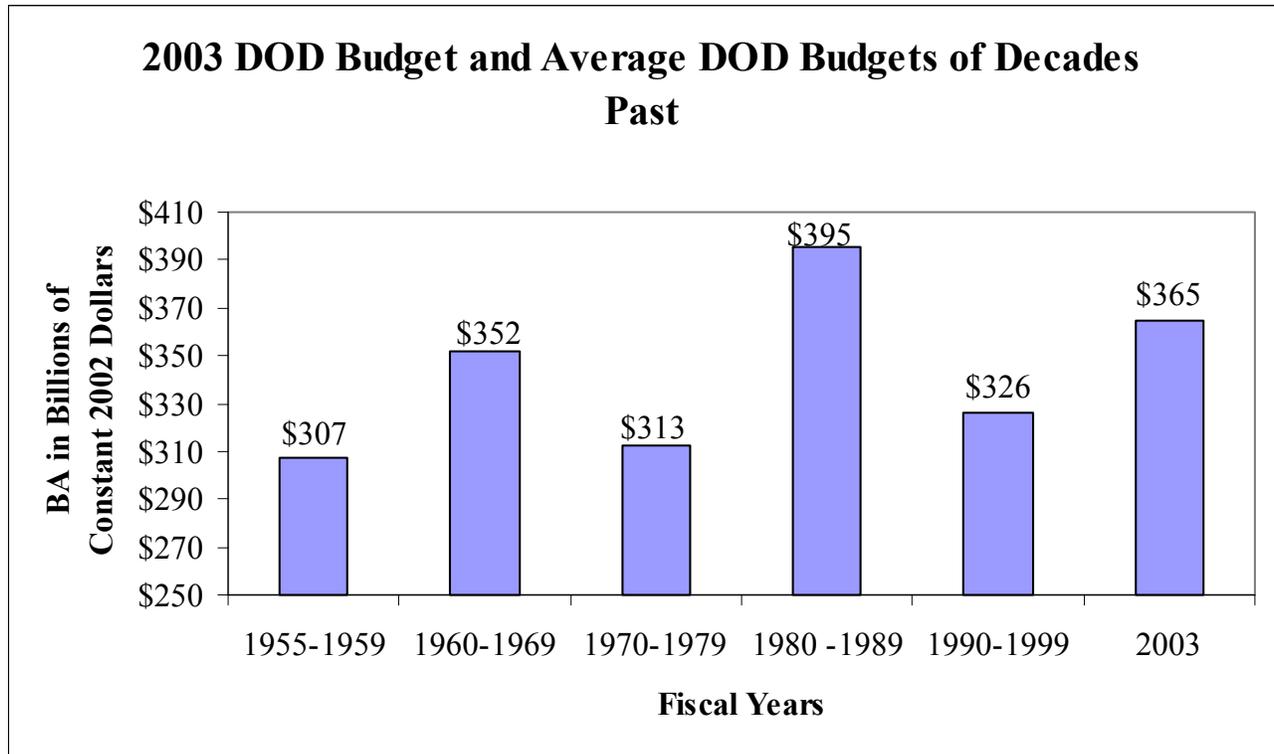
Net Tricare for Life Adjustment	\$2.2 billion
Civilian Accrual Accounting (Adjust 2002)	<u>\$3.2 billion</u>
Total Adjustment	\$5.4 billion

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<sup>1</sup>The OMB estimate for 2003 is \$5.7 billion. The OMB estimate for the DOD accrual payment is \$8.3 billion for 2003. The net adjustment discussed above is thus \$2.6 billion using OMB estimates.

## Historical Perspective on the 2003 Increase

Measured in constant 2002 dollars to account for inflation, the \$42.8 billion increase – after the accounting adjustment for non-programmatic increases – is the largest year-to-year increase for DOD since 1982.<sup>2</sup> Even if the \$10 billion antiterrorism reserve for 2003 is excluded, it is the largest increase since 1983 (again measured in 2002 constant dollars to account for inflation). The analysis that follows will continue to include the \$10 billion reserve but exclude the non-programmatic increases due to accounting changes.



- ***The 2003 Budget and the Average Historical Defense Budget*** — The chart above compares the 2003 DOD budget with the historical average DOD budget of the 1950's, the 1960's, the 1970's, the 1980's, and the 1990's.<sup>3</sup> (Note: the 2003 DOD budget becomes \$365 billion when converted to constant 2002 dollars.) As this chart indicates, the 2003 budget is higher than the average DOD budget of any of the last five decades except the 1980's, and is 92 percent of the average of that decade. Simply put, the 2003 DOD budget is large by any reasonable historical standard.

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<sup>2</sup>Constant dollars calculated using deflators from the Office of the Secretary of Defense/Comptroller *Green Book* for 2002.

<sup>3</sup>The 1950's average uses only the five years of 1955 - 1959 because 2002 constant dollar deflators were not available for prior years from the Office of the Secretary of Defense/Comptroller *Green Book* for 2002.

- ***The Cost of the War on Terrorism and DOD Homeland Security*** — As is discussed in greater detail in *Function 050 (National Defense)*, less than 10 percent of the 2003 DOD budget is directly related to the combined total of the war on terrorism and homeland security. Moreover, of the \$42.8 billion programmatic increase, only \$14.7 billion – about one-third – is directly related to the war on terrorism and homeland security. Thus, even after taking into consideration the war on terrorism and homeland security, the 2003 budget increases DOD funding substantially.
- ***The 2003 DOD Budget Over the Next Five Years*** — The table below shows the DOD levels in the President’s budget for 2003 - 2007 two different ways. The first row is the DOD budget as submitted by OMB without any adjustments. The second row is the DOD budget adjusted for the non-programmatic accounting changes discussed previously. The table provides the year-to-year nominal increase for each. As the table indicates, each year except 2004 represents a substantial increase over the prior year.

**Department of Defense 2003 Budget, 2003 - 2007**  
(Discretionary Budget Authority in billions of Dollars)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
DOD without adjustments	379.3	387.9	408.8	429.6	451.4
<i>Year-to-Year Increases</i>	<i>48.1</i>	<i>8.6</i>	<i>20.9</i>	<i>20.9</i>	<i>21.8</i>
DOD adjusted	373.8	382.2	403.0	423.7	445.2
<i>Year-to-Year Increases</i>	<i>42.8</i>	<i>8.4</i>	<i>20.8</i>	<i>20.7</i>	<i>21.5</i>

*Numbers may not add exactly due to rounding.*

If the 2007 level (adjusted for the non-programmatic accounting changes) is measured in constant 2002 dollars, it equals \$391 billion, which is just 1.0 percent below the average DOD budget in the 1980's.<sup>4</sup>

**The Impact of the DOD Buildup on the Surplus/Deficit Forecast**

CBO recently estimated the surpluses and deficits over the 2003 - 2012 period assuming that DOD funding would grow only with the rate of inflation from its 2002 enacted level. Any increases above that level result in a worsening of the fiscal picture; that is, deficits grow larger or surpluses become smaller.

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<sup>4</sup>The Administration is proposing yet another accrual accounting change beginning in 2004 to reflect making all health care costs for all military retirees mandatory and using accrual accounting to reflect the future costs of the current force. In this sentence, it is an extension of the Tricare-for-Life budgetary treatment of military retiree health care costs.

The table on the next page shows the impact of the 2003 DOD budget on CBO's estimate of surpluses and deficits over the next ten years (2003 - 2012). OMB estimates for DOD are used, and adjusted to exclude the accrual accounting for DOD civilians. No adjustment is made for Tricare-for-Life because it is current law, and thus CBO has already taken its effects into account in its forecast.<sup>5</sup> As the table indicates, the 2003 plan for DOD will impose on the Treasury an additional cost of \$600 billion over the next ten years.

## Conclusion: Much to Discuss

Despite the complexity of measuring true increases in resources available to DOD because of the accounting changes either required by current law or being proposed by the Administration, the DOD budget is increasing substantially and by amounts similar to the Reagan defense build-up of the 1980's. This analysis does not address whether this buildup is justified.

The increases for DOD in the 2003 budget are dramatically higher than the levels CBO assumed in its January 2002 forecast of surpluses and deficits over the next ten years. As this analysis shows, the cost of this increase is likely to total about \$600 billion over the 2003 - 2012 period. How this defense increase is accommodated while the nation also prepares for the strains that the retirement of the Baby Boom generation will place on Social Security and Medicare will be a subject of debate this year both in Congress and among the public.

### Methodology Explanation

The OMB estimates are compared to the CBO baseline of assumed DOD spending because this analysis is trying to determine the impact on the CBO forecast of surpluses and deficits. The impact on the surplus is measured in outlays, not budget authority. Since this extra DOD spending means that less debt is being retired (or more is being borrowed) than CBO estimated in its forecast, interest costs are also included.

For a full discussion of the difference between budget authority and outlays, and the CBO baseline, see the Appendix of the report entitled "*What Happened to the Surplus? Comparing the Cost of the Tax Cut with the Cost of Responding to September 11,*" which can be found on the House Budget Committee Democratic web site.

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<sup>5</sup>The 2004 proposal to expand Tricare-for-Life to all military retirees is not included in this analysis because of a lack of information, and thus the \$659 billion estimate in the table may be a bit high. On the other hand, the analysis also does not include any assumptions about further 2002 spending even though the Administration has clearly indicated it will be seeking a 2002 supplemental. On balance, \$600 billion is a fair estimate.

# The Likely Impact of the DOD Budget on the Surplus

Billions of Dollars

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Ten Year Total
<b>2003 DOD Budget</b>											
Budget Authority	379.3	387.9	408.8	429.6	451.4	463.7	476.3	489.3	502.6	516.4	4505.3
Outlays	362.4	376.6	396.0	410.9	424.5	450.8	464.8	478.4	492.1	506.1	4362.5
<b>Adjustment for DOD Civilian Accrual and 2004 Military Retiree Accrual Proposal</b>											
Budget Authority	3.3	4.6	4.9	5.1	5.3	5.6	5.8	6.1	6.4	6.7	53.9
Outlays	3.3	4.6	4.9	5.1	5.3	5.6	5.8	6.1	6.4	6.7	53.9
<b>2003 DOD Adjusted Budget</b>											
Budget Authority	376.0	383.3	403.9	424.5	446.1	458.1	470.5	483.2	496.2	509.6	4451.4
Outlays	359.1	371.9	391.1	405.8	419.2	445.2	459.0	472.3	485.6	499.4	4308.6
<b>CBO DOD Baseline</b>											
Budget Authority	340.3	349.4	358.6	367.8	377.6	387.6	398.1	408.6	419.2	430.2	3837.2
Outlays	339.3	345.6	357.5	363.3	369.2	382.3	392.5	402.9	417.4	420.4	3790.3
<b>Adjusted DOD Budget Over Baseline</b>											
Budget Authority	35.7	33.9	45.3	56.7	68.5	70.6	72.4	74.7	77.0	79.4	614.2
Outlays	19.8	26.3	33.6	42.6	50.0	62.9	66.5	69.4	68.3	79.0	518.3
<b>Interest Cost Associated with Outlay Increases</b>											
Budget Authority	0.5	1.7	3.5	5.8	8.6	12.2	16.4	21.0	25.9	31.3	126.9
Outlays	0.5	1.7	3.5	5.8	8.6	12.2	16.4	21.0	25.9	31.3	126.9
<b>Total Impact on Surplus*</b>	<b>20.2</b>	<b>28.1</b>	<b>37.1</b>	<b>48.4</b>	<b>58.6</b>	<b>75.1</b>	<b>82.9</b>	<b>90.4</b>	<b>94.2</b>	<b>110.3</b>	<b>645.2</b>

\*Outlays Only.

## Homeland Security

The President’s budget includes a total of \$37.7 billion for homeland security activities, a \$10.1 billion (36.5 percent) increase over the 2002 level (including emergency supplemental funding). The budget includes \$7.8 billion for the Department of Defense (DOD) and intelligence agencies, and \$29.9 billion for non-DOD agencies. Of the \$29.9 billion, \$4.7 billion is for fee-funded programs. Thus, the budget includes \$25.2 billion for non-DOD appropriated homeland security programs.

### Homeland Security Funding (Budget Authority in Billions of Dollars)

	<u>2002</u>	<u>2003 Budget</u>	<u>Increase</u>	<u>% Increase</u>
Appropriated Programs:				
Department of Defense	\$4.9	\$7.8	\$3.0	61.0
Non-DOD Homeland Security	\$19.8	\$25.2	\$5.3	26.9
<i>Subtotal, Appropriated</i>	\$24.7	\$33.0	\$8.3	33.6
Fee-Funded Programs	\$2.9	\$4.7	\$1.8	60.9
<b>Total Resources</b>	<b>\$27.6</b>	<b>\$37.7</b>	<b>\$10.1</b>	<b>36.5</b>

*Numbers may not add exactly due to rounding.*

*All numbers based on OMB estimates.*

- ***Increase for Homeland Security Not As Large As Claimed*** — On January 24, the White House announced that the 2003 budget would increase “resources from \$19.5 billion to \$37.7 billion” for homeland security. This led to widespread media reports that the budget would more or less double funding for homeland security. While the increase is substantial, it is not as large as claimed because the 2002 level is significantly higher than \$19.5 billion. Not included in the 2002 level claimed by the White House in its January 24 press release is \$8.1 billion that Congress provided for homeland security in the emergency supplemental title of the Defense Appropriations Act for 2002.
- ***Appropriated Homeland Security by Mission Area*** — The President’s budget establishes several different mission areas for homeland security funding. The table on the next page compares the funding for 2002,<sup>6</sup> both in regular appropriations bills and in

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<sup>6</sup> While CBO considers all of the first \$20 billion of the \$40 billion supplemental to be 2001 budget authority, OMB considers it to be 2002 budget authority if it is released in 2002. The numbers used in this section, including the tables, are OMB estimates excluding funding that comes from the first \$20 billion supplemental. Thus, the analysis uses OMB estimates of homeland security but CBO’s method of determining 2002 budget authority.

**Homeland Security by Mission Area**  
**Comparing the 2003 Budget with the 2002 Enacted Levels**  
**Appropriated Programs Only**  
 (Budget Authority in Billions of Dollars)

Mission Area:	Regular	Supplemental 1/	Total	Budget	Increase or	Percentage
	Appropriations	Appropriation	2002	2003	Decrease	Change
First Responders	0.3	0.7	0.9	3.5	2.6	272%
Bioterrorism	1.4	3.5	4.9	5.9	1.0	21%
Border Security	7.5	1.2	8.7	8.8	0.1	1%
Information Technology	0.2	0.1	0.2	0.7	0.5	214%
Aviation Security	0.3	0.4	0.7	2.6	1.9	296%
Other Non-DOD Programs	2.8	2.2	5.0	4.7	-0.2	-5%
Other DOD Programs 2/	4.2	0.2	4.4	6.8	2.5	57%
<b>Total</b>	<b>16.6</b>	<b>8.1</b>	<b>24.7</b>	<b>33.0</b>	<b>8.3</b>	<b>34%</b>
<b>Addendum:</b>						
Total DOD	4.7	0.2	4.9	7.8	3.0	61%

Numbers may not add exactly due to rounding.  
 All estimates are based on OMB data.

Notes:

- 1/ The second \$20 billion of the \$40 billion emergency supplemental in response to September 11.
- 2/ This does not represent all funding for DOD homeland security activities. Some portion of the total for DOD is embodied within other Mission Areas. The Addendum provides totals for DOD.

the second \$20 billion of the \$40 billion emergency supplemental, with the 2003 budget. Only appropriated programs are compared in the table (see *Fee-Funded Programs* below for a discussion of other homeland security activities). A brief description of each of the mission areas in the table is as follows:

**First Responders** — Ensuring that emergency response personnel, particularly at the state and local level, are prepared for a wide range of potential terrorist attacks. Includes the purchase of personal protective equipment, emergency medical equipment, biological and chemical detection equipment, and communication systems.

**Bioterrorism** — Enhancing defenses against biological attacks, which includes increasing the capacity of the state and local health delivery systems, developing new technologies to better respond to bioterrorism, and building up the National Pharmaceutical Stockpile.

**Border Security** — Establishing a system to track entry and exit of immigrants, and improving the sharing of information between the U.S., its neighbors, and its large trading partners.

**Information Technology** — Improving the system of sharing information within the federal government and among various state and local agencies that have a role in securing the homeland.

**Aviation Security** — Ensuring that all baggage is checked and that airline safety requirements set by Congress are met on time.

**Other Non-DOD** — OMB has identified more than 40 different agencies and departments that play a role in homeland security.

**DOD** — The majority of DOD homeland security funding is for protecting DOD forces and installations and for intelligence activities.<sup>7</sup> Actual DOD operations against terrorism, such as the ongoing operations in Afghanistan, are not considered to be homeland security.<sup>8</sup>

- ***Fee-Funded Programs*** — In addition to appropriated funding, governmental resources are available for homeland security through a variety of governmental fees. The agencies

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<sup>7</sup>Most of the funding for intelligence activities is included within DOD accounts, but the amounts are classified.

<sup>8</sup>Some DOD funding is included within the other mission areas described above, but this analysis cannot identify those mission areas and the DOD amounts within them based on the budget materials available at this time.

that levy these fees are allowed to use some or all of the receipts from these fees to finance homeland security activities. Since the spending on homeland security is offset by the receipt of the fees, these fee-funded programs have no net effect on the surplus or deficit. However, they do represent governmental resources that are expended for homeland security. The 2003 budget includes a total of \$4.7 billion for fee-funded programs, primarily in the following three areas:

**Aviation** — The Aviation and Transportation Security Act, signed by the President last November, established a new Transportation Security Administration (TSA), which took over responsibility for aviation security from the Federal Aviation Administration. In order to help fund the TSA's activities, the law authorizes a passenger fee of \$2.50 per enplanement (capped at \$5 per one-way ticket) and security fees on air carriers. The President's budget reflects estimated collections of \$2.2 billion from these fees. These collections only partially cover the \$4.8 billion the President's budget provides for the TSA. For more information on this subject, see *Function 400 (Transportation)*.

**Customs and Immigration and Naturalization Service (INS)** — Under current law, Customs, INS, and other agencies related to border control charge a variety of fees. A portion of these fees, \$1.8 billion for 2003, will help fund personnel and equipment to secure U.S. borders.

**State Department** — The 2003 budget includes \$623 million generated from application fees for machine-readable visas to be used for homeland security activities. The fees support border security initiatives within the State Department's Diplomatic and Consular programs.

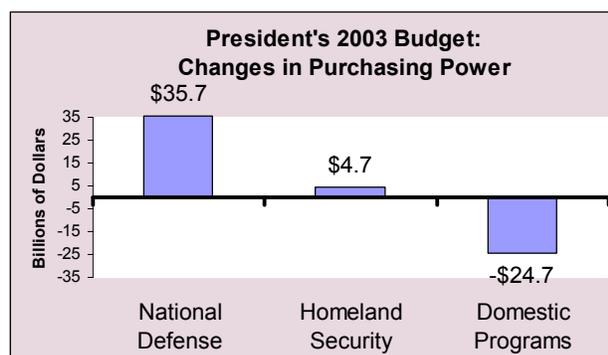
#### **Defining Homeland Security**

Part of the difficulty in measuring increases for homeland security is that there is no commonly accepted definition of what activities constitute homeland security. For example, using the definition of homeland security that OMB used in its July 2001 report on anti-terrorism, CBO estimates the 2002 level of homeland security to be \$22.2 billion for appropriated programs, \$2.5 billion less than the level OMB now claims. OMB has apparently modified its definition since last summer, and the debate over the level of the 2003 homeland increase is likely to be complicated due to the uncertainty over what programs to include and exclude.

## Appropriated Programs

The 2003 budget touts the Administration's emphasis on "the war on terrorism and the defense of our homeland," and consequently provides large increases for these two areas while cutting funding in non-defense discretionary programs. However, this emphasis is not just a result of September 11: it reflects the Administration's long-time desire to increase military funding and decrease domestic discretionary appropriations. Last year, well before September 11, the Administration's 2002 budget proposed a 10.4 percent increase for defense funding and a 3.4 percent increase for all domestic (non-homeland security) appropriations. This year, the President's budget provides a 12.9 percent increase for defense appropriations and a cut of 3.4 percent for domestic appropriations compared with the 2002 enacted level.<sup>9</sup> The Administration's funding priorities have not changed, only the justifications for those priorities.

The President's budget includes \$799.9 billion in budget authority and obligation limitations for all appropriated programs for 2003, an increase of \$39.6 billion over the 2002 level (see table on next page). However, the budget increases national defense by \$45.3 billion and homeland security by \$5.3 billion. This means that the budget cuts funding for non-defense, non-homeland security programs by \$12.4 billion below last year's enacted level. This is a \$24.7 billion (6.5 percent) cut in constant purchasing power for domestic programs for 2003. In contrast, as the chart above shows, funding for defense increases by \$35.7 billion and homeland security by \$4.7 billion above the amount needed, according to CBO, to maintain purchasing power at the 2002 level. See *Defense and the Budget* and *Homeland Security* for further details on that funding.



- **Accrual Accounting for Federal Employees** — The budget shows a \$9.0 billion increase in discretionary funding that does not reflect any programmatic increases. This \$9.0 billion covers the budget's proposal to show up front (through accrual accounting, already used for federal credit programs) all retirement pension and health costs for all federal employees beginning in 2003. Under current federal accounting procedures, these retirement costs are future mandatory payments and do not show up in agency costs. The budget changes this practice so that each agency shows all retirement costs as current discretionary costs, therefore increasing the need for discretionary appropriations by almost \$9 billion for 2003 to cover these payments. This accounting change has no

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<sup>9</sup>In this section, national defense is only adjusted for the civilian accrual accounting proposal, although there is another defense-specific accounting change that results in a non-programmatic increase for 2003. See *Defense and the Budget* for further details.

effect on the budget surplus or deficit because it is merely an intergovernmental transfer: each agency will pay the accrual costs of employees' retirement and health costs to another governmental account.

The budget's \$799.9 billion for all appropriated programs includes the \$9.0 billion increase for accrual accounting. The table below adjusts the 2002 levels for the accrual proposal in order to make an "apples-to-apples" comparison with the 2003 budget.

### **Funding for Appropriated Programs**

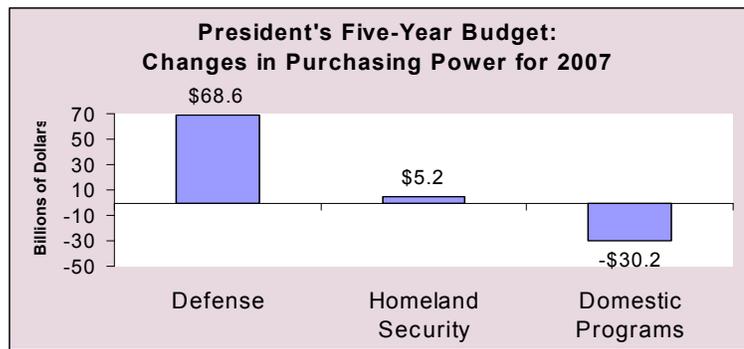
(Budget Authority and Obligation Limitations in Billions of Dollars)

	<u>2002</u>	<u>2003</u>	<u>Change</u>	<u>Percent Change</u>
National Defense*	350.8	396.1	45.3	12.9%
Non-DOD Homeland Security	19.8	25.2	5.3	26.9%
International Affairs	24.1	25.4	1.3	5.5%
Domestic Programs	<u>365.5</u>	<u>353.1</u>	<u>-12.4</u>	<u>-3.4%</u>
<b>Total</b>	<b>760.3</b>	<b>799.9</b>	<b>39.6</b>	<b>5.2%</b>

*The 2002 levels are CBO estimates adjusted for the Administration's accrual accounting proposal. Domestic Programs include budget authority and transportation obligation limits. \*National Defense is budget Function 050, which includes the Department of Defense and the nuclear weapons-related activities of the Department of Energy.*

- ***Squeeze on Domestic Programs*** — As the table above indicates, the budget cuts funding for domestic programs not related to homeland security by \$24.7 billion (6.5 percent) below the level needed, according to CBO, to maintain purchasing power at the 2002 level. To the extent that the budget increases funding for a few high-profile programs, such as the National Institutes of Health and special education, the remaining programs face even steeper cuts, some that Congress has repeatedly refused to make in past years.
- ***Unrealistic Cuts in Domestic Appropriations*** — Since domestic appropriations have grown faster than the rate of inflation for years, it is unrealistic to assume that Congress will suddenly reverse priorities and cut domestic programs by 6.5 percent for 2003. If one adds in a more realistic level of appropriations for non-defense, non-homeland security programs, it is clear that the budget deficit will be even deeper than the President's budget admits and will last even longer than the budget projects.

- ***Domestic Funding Falls Further Behind by 2007*** — Over five years (2003-2007), the budget provides \$4.3 trillion for all appropriated programs. By 2007, total appropriations are \$44.7 billion (5.2 percent) above the amount needed, according to



CBO, to maintain purchasing power at the 2002 level. However, domestic appropriations fall behind<sup>10</sup>; by 2007, they are \$30.2 billion (7.3 percent) below the amount needed to maintain purchasing power at the 2002 level. On the other hand, defense appropriations for 2007 are \$68.6 billion (17.1 percent) above the amount needed to maintain purchasing power at the 2002 level.

- ***Highway Funding Cut Drastically*** - The budget cuts 2003 federal-aid highway funding to \$23.2 billion, a cut of \$8.6 billion (27.0 percent) below the 2002 enacted level (OMB had previously in error reported a \$9.2 billion cut). This dramatic cut is consistent with a provision in the Transportation Equity Act for the 21st Century (TEA-21) that links highway funding levels with highway use tax collections. Such a steep decline in federal aid could force states to abandon or postpone many highway projects and result in the loss of thousands of highway construction jobs while the nation is still recovering from the recession. The budget makes no attempt to remedy this steep drop called for under the provisions of TEA-21. See *Function 400 (Transportation)* for further information.
- ***September 11 Emergency Supplemental*** — The 2002 level includes the \$20 billion emergency supplemental funding contained in the defense appropriations bill for 2002, often referred to as the second \$20 billion of the \$40 billion emergency supplemental funding enacted in response to September 11. The Domestic Programs category thus contains all non-defense, non-homeland security funding (primarily assistance to New York totaling approximately \$8.1 billion) that occurred in response to September 11. CBO considers the first \$20 billion of supplemental appropriations to be 2001 funding, as Congress passed the bill before September 30, 2001, the end of that fiscal year.
- ***Pending Supplemental Request for 2002*** — The Administration indicates that it plans to make a supplemental request for 2002 funding in March, with further increases for defense programs and perhaps for other programs as well. This will raise total appropriations accordingly.

<sup>10</sup>The budget's non-DOD homeland security funding over five years was derived by applying the budget's annual non-defense discretionary inflation rate to the 2003 non-defense homeland security total of \$25.2 billion.

## Harmful Program Cuts

To make room for its tax cuts, the budget cuts many important programs. For a full discussion of harmful cuts in particular policy areas, please see the function-by-function analysis of the budget in the sections that follow.

### Cuts that Undermine Economic Growth

- ***Budget Drastically Cuts Highway Funding*** — The President's budget cuts 2003 federal-aid highway funding to \$23.2 billion, a cut of \$8.6 billion (27.0 percent) from the 2002 enacted level of \$31.8 billion. Although this cut is consistent with the law that sets out highway spending levels (TEA-21), the President's budget makes no attempt to remedy this steep drop. Such a dramatic decline in federal aid could force states to abandon or postpone many highway projects and result in the loss of thousands of highway construction jobs while the nation is still suffering the effects of a recession.
- ***Cuts Employment and Training*** — The budget cuts funding for employment and training programs by \$686 million (12.1 percent) from the 2002 enacted level of \$5.7 billion.
- ***Eliminates \$1.3 Billion of 2002 Funding for Education, Health and Human Services, and Labor Programs*** — The budget assumes a rescission of \$1.3 billion of last year's (2002) funding for Education, Health and Human Services, and Labor programs. Because last year many more eligible students than in the past applied for Pell Grants to attend postsecondary education, there is a \$1.3 billion shortfall for Pell Grants for 2002. Rather than provide this extra funding for 2003, the budget requires Congress to obtain this funding for Pell Grants by cutting \$1.3 billion funded by the 2002 Labor, Health and Human Services, and Education Appropriations Act.
- ***Cuts Funding for New Education Act*** — The President's budget not only fails to provide all the funding authorized for the No Child Left Behind Act, last year's bipartisan reauthorization of the nation's main elementary and secondary education law, it actually cuts funding for these programs by \$90 million from the 2002 enacted level.
- ***Cuts Other Education Programs*** — The budget decreases funding in many areas, including the following: educational technology (cut \$134 million, or 15.7 percent, to \$722 million); Improving Teacher Quality programs (down \$105 million to \$3.0 billion); and Safe and Drug-Free Schools (cut \$102 million, or 13.7 percent, to \$644 million).
- ***Funding Cut for the Advanced Technology Program*** — The budget cuts funding for the Commerce Department's Advanced Technology Program \$76 million (41.3 percent) below the 2002 enacted level. The program provides assistance to U.S. businesses and joint research and development ventures to help them improve their competitive position.

- ***Budget Fails to Fund Securities and Exchange Commission (SEC) Pay Parity*** — In January, the President signed into law legislation that authorized increases in pay and benefits for SEC employees to make them comparable to agencies that regulate banking. Despite the Enron scandal, which indicates the importance of and need for a strong, well-funded SEC, the budget does not provide funding for this pay parity provision.

## **Cuts to Health**

- ***Eliminates Community Access Program (CAP)*** — The budget eliminates the community access program for 2003, a cut of \$105 million. CAP funds grants to coordinate health care services to the under-insured and uninsured offered by community providers such as public hospitals, community health centers, and disproportionate share hospitals.
- ***Slashes Rural Health Activities*** — Rural health activities are cut by \$54 million, 41.9 percent, below the 2002 enacted level.
- ***Cuts Children's Hospital Graduate Medical Education (GME)*** — For 2003, the budget cuts pediatric GME by \$85 million, 29.8 percent, below the 2002 enacted level. Funding drops to \$200 million for 2003. These funds are currently used by children's teaching hospitals to offset the higher costs of providing advanced training to pediatricians.
- ***Freezes Ryan White AIDS Programs*** — For 2003, the budget freezes Ryan White AIDS programs at the 2002 level of \$1.9 billion. With the advent of effective therapies, the number of persons seeking AIDS Drug Assistance Program (ADAP) assistance has more than doubled since 1996. The budget's level funding of Ryan White programs, especially ADAP, comes at a time when many states are implementing program restrictions or eligibility limits because of budget shortfalls.
- ***Freezes Title X Family Planning*** — The budget freezes Title X family planning programs at the 2002 level of \$266 million for 2003.
- ***Freezes Maternal and Child Health (MCH) Block Grant*** — For 2003, the budget freezes the MCH block grant at the 2002 enacted level of \$739 million. The MCH block grant supports federal and state partnerships to develop service systems to address the critical challenges in maternal and child health.

## Cuts that Weaken Our Communities

- ***State and Local Law Enforcement Grant Cuts*** — State and Local Law Enforcement Assistance Grants support programs and activities that center on combating crime. The budget, while slightly increasing funding for federal law enforcement programs, cuts state and local justice assistance to \$752 million, a \$1.7 billion (69.0 percent) cut below the level needed to maintain purchasing power at the 2002 level.
- ***Juvenile Justice Programs Cut*** — Juvenile justice programs provide grants and other assistance for states and localities to help combat juvenile delinquency. The President's budget provides \$251 million for juvenile justice assistance, a \$54 million (18.0 percent) cut below the level needed to maintain purchasing power at the 2002 level.
- ***Community Development Financial Institutions (CDFI) Fund Cut*** — The CDFI program provides grants, loans, and other assistance to promote investment in economically distressed areas. The budget provides \$68 million for CDFI, a \$13 million (16.0 percent) cut below the level needed, according to CBO, to maintain purchasing power at the 2002 level.
- ***Empowerment Zones Cut*** — Empowerment Zones target funds to revitalize economically distressed areas and attract private investment. The budget includes no funding for urban or rural empowerment zones for 2003. Last year urban empowerment zones received \$45 million in appropriated funds and rural empowerment zones received \$15 million in appropriated funds.

## Cuts that Hurt Working Families

- ***Cuts LIHEAP Formula Grants by 17.6 Percent*** — At a time of recession and high unemployment, the budget provides \$1.4 billion in formula grants to states and \$300 million in contingent funding for the Low-Income Heating and Energy Assistance Program (LIHEAP), cutting formula grants by \$300 million (17.6 percent) compared with the 2002 enacted level.
- ***Freezes Funding for Child Care*** — The budget freezes funding for the Child Care and Development Fund at the 2002 enacted level of \$4.8 billion, providing \$2.1 billion in discretionary funding for the Child Care and Development Block Grant (CCDBG) and \$2.7 billion for mandatory child care programs. For 2003, this cuts CCDBG by \$40 million compared with CBO's estimate of the amount necessary to maintain purchasing power at the 2002 level. The budget freezes funding for the mandatory programs at \$2.7 billion through 2012.
- ***Cuts Funding for Critical Repairs to Public Housing*** — The Administration cuts the Public Housing Capital Fund to \$2.4 billion, \$417 million (14.7 percent) below the 2002

enacted level. Public housing — home to 1.2 million families, over 40 percent of whom are elderly or disabled — faces a \$20 billion backlog of unmet repair needs.

- ***Eliminates Rural Housing and Economic Development*** — The budget eliminates this \$25 million program, which encourages new and innovative approaches to serve the housing and economic development needs of rural populations through grants to local community-based organizations.
- ***Cuts to Rural Housing Programs*** — The budget cuts Department of Agriculture direct loans for single-family housing by 11.4 percent; guaranteed loans for single-family housing by 12.4 percent; and direct loans for rental housing by 47.4 percent.

## **The Budget By Function**

The following three tables show the President’s budget broken down by budget function, which correspond with the major areas of federal government activity. The first table shows total spending (appropriated and mandatory) for each budget function. The second table shows the budget for appropriated (or “discretionary”) spending, which is spending controlled by the annual appropriations process. The third table shows the budget for mandatory spending, which is spending provided for through authorizing legislation. Mandatory spending includes entitlement programs such as Medicare, Medicaid, and Social Security, as well as interest payments on the federal debt. Figures may not add due to rounding.

**BUSH 2003 BUDGET AS ESTIMATED BY OMB**  
**TOTAL BUDGET**  
(In billions of dollars)

	2002	2003	2004	2005	2006	2007	5 Yr. Total
Budget Authority	2085.0	2162.9	2210.2	2309.7	2414.7	2529.0	11626.5
Outlays	2052.3	2128.2	2189.1	2276.9	2369.1	2467.7	11431.0
Revenues	1946.1	2048.1	2175.4	2338.0	2455.3	2571.7	11588.5
Surplus	-106.2	-80.1	-13.7	61.1	86.2	104.0	157.5
<b>050 National Defense</b>							
Budget authority	350.7	396.8	405.6	426.6	447.7	469.8	2146.5
Outlays	348.0	379.0	393.8	413.5	428.5	442.5	2057.4
<b>150 International Affairs</b>							
Budget authority	22.3	23.9	24.8	25.6	26.3	27.2	127.7
Outlays	23.5	22.5	22.8	23.3	23.9	24.6	117.0
<b>250 General Science, Space</b>							
Budget authority	22.2	22.7	23.3	23.8	24.4	25.0	119.2
Outlays	21.8	22.2	22.8	23.5	24.0	24.6	117.1
<b>270 Energy</b>							
Budget authority	0.6	0.5	0.4	0.9	0.7	0.7	3.2
Outlays	0.6	0.6	0.3	0.8	0.7	0.7	3.1
<b>300 Natural Resources and Environment</b>							
Budget authority	30.9	30.0	31.3	32.3	31.7	32.3	157.6
Outlays	30.2	30.6	31.1	31.7	32.5	32.8	158.7
<b>350 Agriculture</b>							
Budget authority	29.0	23.8	23.0	21.3	20.4	20.3	108.7
Outlays	28.8	24.2	22.8	21.3	20.4	20.3	109.0
<b>370 Commerce and Housing Credit</b>							
Budget authority	10.7	14.1	9.8	9.4	8.5	10.7	52.5
Outlays	3.8	3.7	5.1	3.1	1.2	1.7	14.8
<b>400 Transportation</b>							
Budget authority	66.1	63.7	58.4	64.6	65.9	67.2	319.9
Outlays	62.1	59.4	56.3	56.0	56.9	58.6	287.2
<b>450 Community and Regional Development</b>							
Budget authority	18.5	14.7	15.4	15.5	15.9	16.2	77.7
Outlays	15.4	17.4	18.0	17.4	15.6	15.4	83.8
<b>500 Education and Training</b>							
Budget authority	79.6	80.9	81.8	84.0	85.9	87.9	420.5
Outlays	71.7	79.0	81.0	82.7	84.2	86.1	413.0
<b>550 Health</b>							
Budget authority	201.0	234.3	259.0	278.4	298.0	319.9	1389.5
Outlays	195.2	231.9	258.8	277.8	297.0	318.3	1383.8
<b>570 Medicare</b>							
Budget authority	230.3	234.5	244.1	261.4	282.0	305.5	1327.5
Outlays	226.4	234.4	244.3	261.3	281.8	305.8	1327.5
<b>600 Income Security</b>							
Budget authority	306.2	319.3	326.6	336.3	347.5	356.7	1686.4
Outlays	310.7	319.7	325.0	334.3	345.2	352.7	1676.9
<b>650 Social Security</b>							
Budget authority	461.3	476.9	497.6	521.8	548.5	577.8	2622.7
Outlays	459.7	475.9	495.7	519.7	546.2	575.3	2612.8
<b>700 Veterans</b>							
Budget authority	51.8	56.6	58.8	60.9	63.1	65.2	304.6
Outlays	51.5	56.6	58.6	63.2	62.9	62.3	303.5
<b>750 Administration of Justice</b>							
Budget authority	37.3	38.2	41.0	38.9	39.8	40.7	198.5
Outlays	34.4	40.6	43.5	39.5	39.7	40.4	203.7
<b>800 General Government</b>							
Budget authority	17.7	17.8	19.5	18.7	19.2	19.4	94.7
Outlays	18.3	17.6	19.6	18.6	19.0	19.2	94.0
<b>900 Net Interest</b>							
Budget authority	178.4	180.7	188.8	190.2	188.3	185.3	933.4
Outlays	178.4	180.7	188.8	190.2	188.3	185.3	933.4
<b>920 Allowances</b>							
Budget authority	25.7	7.6	1.1	-0.4	-0.4	-0.4	7.4
Outlays	27.0	6.4	0.8	-0.5	-0.3	-0.4	6.0
<b>950 Undistributed Offsetting Receipts</b>							
Budget authority	-55.2	-74.1	-100.2	-100.4	-98.6	-98.4	-471.7
Outlays	-55.2	-74.1	-100.2	-100.4	-98.6	-98.4	-471.7

**Table 1**

**BUSH 2003 BUDGET AS ESTIMATED BY OMB**  
**TOTAL BUDGET**  
**(In billions of dollars)**

	2008	2009	2010	2011	2012	Second 5	10 Yr. Total
Budget Authority	2633.2	2741.0	2855.9	2978.3	3085.1	14293.4	25919.9
Outlays	2584.5	2692.0	2807.9	2933.5	3029.5	14047.4	25478.4
Revenues	2698.0	2833.7	2989.3	3111.3	3260.3	14892.6	26481.1
Surplus	113.5	141.7	181.4	177.8	230.8	845.2	1002.7
<b>050 National Defense</b>							
Budget authority	482.5	495.5	509.0	522.8	537.0	2546.8	4693.2
Outlays	469.2	483.7	497.7	511.8	526.3	2488.6	4546.0
<b>150 International Affairs</b>							
Budget authority	27.9	28.7	29.7	30.3	31.0	147.6	275.4
Outlays	25.1	25.9	26.5	27.2	27.8	132.6	249.6
<b>250 General Science, Space</b>							
Budget authority	25.6	26.2	26.8	27.4	28.1	134.0	253.2
Outlays	25.2	25.8	26.4	27.0	27.6	131.9	249.0
<b>270 Energy</b>							
Budget authority	1.5	1.4	1.5	1.5	1.7	7.5	10.8
Outlays	1.3	1.3	1.4	1.4	1.6	7.0	10.0
<b>300 Natural Resources and Environment</b>							
Budget authority	33.0	33.9	34.6	35.3	36.0	172.8	330.5
Outlays	33.3	33.9	34.5	35.1	35.7	172.3	331.0
<b>350 Agriculture</b>							
Budget authority	20.8	21.0	21.2	21.2	20.2	104.4	213.1
Outlays	20.8	21.0	21.2	21.2	20.2	104.4	213.4
<b>370 Commerce and Housing Credit</b>							
Budget authority	10.4	12.4	15.4	10.6	10.9	59.7	112.2
Outlays	1.3	2.3	5.3	1.5	-0.7	9.8	24.6
<b>400 Transportation</b>							
Budget authority	68.6	70.0	71.4	72.8	74.3	357.1	677.0
Outlays	59.7	60.9	62.1	63.4	64.9	311.0	598.2
<b>450 Community and Regional Development</b>							
Budget authority	16.6	17.0	17.4	17.9	18.3	87.3	165.0
Outlays	15.7	16.1	16.5	16.9	17.2	82.4	166.2
<b>500 Education and Training</b>							
Budget authority	89.4	90.9	93.1	95.3	97.6	466.4	886.9
Outlays	87.5	89.0	91.1	93.3	95.3	456.2	869.2
<b>550 Health</b>							
Budget authority	342.2	365.9	391.2	418.1	447.3	1964.8	3354.3
Outlays	340.7	364.5	390.1	417.1	446.4	1958.9	3342.7
<b>570 Medicare</b>							
Budget authority	325.7	347.2	369.0	397.7	415.4	1855.0	3182.4
Outlays	325.5	346.9	369.3	397.5	415.2	1854.4	3181.9
<b>600 Income Security</b>							
Budget authority	373.1	384.8	398.1	416.5	417.6	1990.1	3676.4
Outlays	366.6	378.7	392.7	410.6	410.8	1959.4	3636.3
<b>650 Social Security</b>							
Budget authority	610.2	647.0	687.4	730.1	776.9	3451.6	6074.3
Outlays	607.3	643.8	684.0	726.4	772.9	3434.4	6047.2
<b>700 Veterans</b>							
Budget authority	67.3	69.7	72.1	74.4	77.5	361.1	665.6
Outlays	67.1	69.4	71.8	77.5	73.9	359.7	663.2
<b>750 Administration of Justice</b>							
Budget authority	41.6	42.6	43.6	44.6	45.5	217.8	416.3
Outlays	41.4	42.3	43.3	44.3	45.3	216.5	420.2
<b>800 General Government</b>							
Budget authority	19.6	20.0	20.4	20.9	21.6	102.5	197.2
Outlays	19.5	19.7	20.1	20.5	21.2	101.0	195.0
<b>900 Net Interest</b>							
Budget authority	180.9	174.7	167.0	159.1	151.7	833.4	1766.8
Outlays	180.9	174.7	167.0	159.1	151.7	833.4	1766.8
<b>920 Allowances</b>							
Budget authority	-0.4	-0.5	-0.5	-0.5	-0.5	-2.3	5.1
Outlays	-0.3	-0.4	-0.5	-0.5	-0.5	-2.2	3.8
<b>950 Undistributed Offsetting Receipts</b>							
Budget authority	-103.3	-107.3	-112.6	-117.8	-123.3	-564.2	-1035.9
Outlays	-103.3	-107.3	-112.6	-117.8	-123.3	-564.2	-1035.9

**Table 1 (Continued)**

**BUSH 2003 BUDGET AS ESTIMATED BY OMB  
DISCRETIONARY TOTALS  
(In billions of dollars)**

	2002	2003	2004	2005	2006	2007 5 Yr. Total	
<b>Total Discretionary</b>							
Budget Authority	717.8	766.9	789.1	817.0	844.3	875.8	4093.1
Outlays	740.5	789.0	815.0	838.3	857.9	880.0	4180.2
<b>Non-defense discretionary</b>							
Budget Authority	367.1	370.8	384.1	390.8	396.8	406.2	1948.6
Outlays	392.5	410.0	421.3	424.9	429.3	437.5	2123.0
<b>050 National Defense</b>							
Budget authority	350.8	396.1	405.0	426.2	447.5	469.6	2144.5
Outlays	348.0	379.0	393.7	413.4	428.5	442.5	2057.2
<b>150 International Affairs</b>							
Budget authority	24.2	25.4	26.1	26.8	27.4	28.1	133.7
Outlays	26.9	25.5	25.9	26.4	27.0	27.6	132.4
<b>250 General Science, Space</b>							
Budget authority	22.0	22.5	23.3	23.8	24.4	24.9	119.0
Outlays	21.6	22.0	22.7	23.5	24.0	24.6	116.7
<b>270 Energy</b>							
Budget authority	3.3	3.3	3.5	3.5	3.6	3.7	17.6
Outlays	3.3	3.4	3.5	3.6	3.6	3.7	17.8
<b>300 Natural Resources and Environment</b>							
Budget authority	29.7	28.3	28.9	29.6	28.9	29.6	145.3
Outlays	29.6	29.5	29.4	29.8	30.2	30.6	149.4
<b>350 Agriculture</b>							
Budget authority	5.8	5.0	5.8	5.7	5.8	6.0	28.3
Outlays	6.1	5.7	5.7	5.7	5.8	6.0	28.8
<b>370 Commerce and Housing Credit</b>							
Budget authority	0.1	-0.4	-0.1	-0.4	-0.8	0.2	-1.5
Outlays	0.5	-0.2	-0.1	-0.5	-0.9	0.1	-1.6
<b>400 Transportation</b>							
Budget authority	19.6	21.7	21.8	22.3	22.8	23.3	112.0
Outlays	55.6	57.1	55.3	55.0	56.0	57.7	281.1
<b>450 Community and Regional Development</b>							
Budget authority	18.4	15.2	15.7	16.0	16.3	16.7	80.0
Outlays	15.3	18.0	18.7	18.2	16.5	16.3	87.8
<b>500 Education and Training</b>							
Budget authority	71.7	72.2	73.7	75.3	76.7	78.2	376.2
Outlays	64.1	70.5	72.9	74.3	75.3	76.9	369.9
<b>550 Health</b>							
Budget authority	46.2	48.8	50.0	51.4	52.7	54.0	256.9
Outlays	40.3	44.9	48.1	50.2	51.6	52.9	247.7
<b>570 Medicare</b>							
Budget authority	3.7	3.7	3.8	3.9	4.0	4.1	19.4
Outlays	3.7	3.7	3.7	3.8	3.9	4.0	19.2
<b>600 Income Security</b>							
Budget authority	43.4	45.1	47.5	48.4	48.5	49.1	238.6
Outlays	47.7	48.6	49.6	50.1	50.2	49.3	247.9
<b>650 Social Security</b>							
Budget authority	3.7	4.0	4.3	4.4	4.5	4.6	21.7
Outlays	3.9	4.2	4.2	4.3	4.4	4.5	21.7
<b>700 Veterans</b>							
Budget authority	24.8	26.5	26.9	27.4	28.0	28.5	137.3
Outlays	24.6	26.3	26.8	27.3	27.8	28.4	136.6
<b>750 Administration of Justice</b>							
Budget authority	35.3	33.3	36.8	36.3	37.2	38.0	181.6
Outlays	32.8	36.3	38.8	36.7	37.0	37.8	186.6
<b>800 General Government</b>							
Budget authority	16.2	16.3	16.5	16.9	17.3	17.7	84.6
Outlays	16.6	16.1	16.6	16.8	17.1	17.5	84.1
<b>900 Net Interest</b>							
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>920 Allowances</b>							
Budget authority	-1.3	-0.4	-0.4	-0.4	-0.4	-0.4	-2.1
Outlays	0.0	-1.6	-0.4	-0.4	-0.4	-0.4	-3.3
<b>950 Undistributed Offsetting Receipts</b>							
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0	0.0

**Table 2**

**BUSH 2003 BUDGET AS ESTIMATED BY OMB  
DISCRETIONARY TOTALS  
(In billions of dollars)**

	2008	2009	2010	2011	2012	Second 5	10 Yr. Total
<b>Total Discretionary</b>							
Budget Authority	899.0	922.8	950.7	969.5	994.3	4736.2	8829.3
Outlays	916.4	941.4	969.1	990.2	1014.1	3914.8	8095.0
<b>Non-defense discretionary</b>							
Budget Authority	416.6	427.4	441.8	446.8	457.4	2190.0	4138.6
Outlays	432.6	443.6	457.2	463.8	487.7	2285.0	4407.9
050 National Defense							
Budget authority	482.4	495.4	508.9	522.7	536.9	2546.2	4690.7
Outlays	469.2	483.8	497.8	511.9	526.4	2019.9	4077.1
150 International Affairs							
Budget authority	28.7	29.4	30.1	30.8	31.6	150.6	284.4
Outlays	28.1	28.7	29.4	30.1	30.8	147.1	279.5
250 General Science, Space							
Budget authority	25.5	26.1	26.8	27.4	28.0	133.9	252.9
Outlays	25.1	25.7	26.4	27.0	27.6	131.8	248.6
270 Energy							
Budget authority	4.3	4.3	4.4	4.4	4.5	21.8	39.4
Outlays	4.2	4.3	4.3	4.4	4.4	21.6	39.4
300 Natural Resources and Environment							
Budget authority	30.3	31.0	31.8	32.5	33.3	158.9	304.3
Outlays	30.9	31.3	31.9	32.5	33.2	159.7	309.1
350 Agriculture							
Budget authority	6.1	6.2	6.4	6.5	6.7	31.9	60.2
Outlays	6.1	6.2	6.3	6.5	6.6	31.7	60.5
370 Commerce and Housing Credit							
Budget authority	0.4	1.2	5.4	0.0	-0.2	6.8	5.3
Outlays	0.3	1.0	4.4	1.0	-0.3	6.4	4.8
400 Transportation							
Budget authority	23.9	24.4	25.0	25.6	26.2	124.9	236.9
Outlays	58.9	60.1	61.3	62.6	64.1	307.0	588.1
450 Community and Regional Development							
Budget authority	17.1	17.5	17.9	18.4	18.8	89.8	169.8
Outlays	16.7	17.1	17.5	17.8	18.2	87.2	175.0
500 Education and Training							
Budget authority	80.1	82.0	84.0	86.0	88.1	420.2	796.4
Outlays	78.7	80.6	82.5	84.4	86.5	412.6	782.5
550 Health							
Budget authority	55.2	56.5	57.9	59.2	60.6	289.5	546.4
Outlays	54.2	55.4	56.8	58.1	59.5	283.9	531.7
570 Medicare							
Budget authority	4.1	4.2	4.4	4.5	4.6	21.8	41.1
Outlays	4.1	4.2	4.3	4.4	4.5	21.6	40.8
600 Income Security							
Budget authority	50.4	51.8	53.3	54.9	56.4	266.8	505.4
Outlays	50.3	51.4	52.5	53.7	54.3	262.1	510.0
650 Social Security							
Budget authority	4.7	4.8	4.9	5.0	5.1	24.4	46.1
Outlays	4.6	4.7	4.9	5.0	5.1	24.3	46.0
700 Veterans							
Budget authority	29.2	29.8	30.5	31.1	31.8	152.4	289.7
Outlays	29.0	29.7	30.4	30.9	31.7	151.7	288.3
750 Administration of Justice							
Budget authority	38.9	39.8	40.8	41.8	42.8	204.1	385.7
Outlays	38.7	39.6	40.5	41.5	42.4	202.6	389.2
800 General Government							
Budget authority	18.1	18.5	18.9	19.3	19.8	94.5	179.1
Outlays	17.8	18.2	18.6	19.0	19.5	93.1	177.3
900 Net Interest							
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0	0.0
920 Allowances							
Budget authority	-0.4	-0.5	-0.5	-0.5	-0.5	-2.3	-4.4
Outlays	-0.4	-0.5	-0.5	-0.5	-0.5	-2.3	-5.7
950 Undistributed Offsetting Receipts							
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0	0.0

**Table 2 (Continued)**

**BUSH 2003 BUDGET AS ESTIMATED BY OMB  
MANDATORY, NET INTEREST, AND OFFSETTING RECEIPTS ONLY  
(In billions of dollars)**

	2002	2003	2004	2005	2006	2007	5 Yr. Total
Budget Authority	1367.2	1396.0	1421.0	1492.7	1570.4	1653.2	7533.4
Outlays	1311.8	1339.2	1374.1	1438.6	1511.3	1587.7	7250.9
<b>050 National Defense</b>							
Budget authority	-0.1	0.7	0.6	0.3	0.2	0.1	2.0
Outlays	0.0	0.0	0.1	0.1	0.0	0.0	0.2
<b>150 International Affairs</b>							
Budget authority	-1.9	-1.6	-1.3	-1.2	-1.1	-0.9	-6.0
Outlays	-3.4	-3.1	-3.1	-3.1	-3.1	-3.0	-15.4
<b>250 General Science, Space</b>							
Budget authority	0.1	0.1	0.0	0.0	0.0	0.0	0.2
Outlays	0.1	0.1	0.1	0.1	0.0	0.0	0.4
<b>270 Energy</b>							
Budget authority	-2.7	-2.8	-3.1	-2.7	-2.9	-3.0	-14.4
Outlays	-2.8	-2.9	-3.2	-2.7	-3.0	-3.0	-14.7
<b>300 Natural Resources and Environment</b>							
Budget authority	1.1	1.6	2.4	2.7	2.8	2.8	12.3
Outlays	0.7	1.1	1.8	1.9	2.2	2.2	9.3
<b>350 Agriculture</b>							
Budget authority	23.2	18.8	17.2	15.6	14.6	14.3	80.4
Outlays	22.7	18.5	17.2	15.6	14.6	14.3	80.2
<b>370 Commerce and Housing Credit</b>							
Budget authority	10.6	14.5	9.8	9.8	9.3	10.5	54.0
Outlays	3.3	3.9	5.2	3.6	2.1	1.6	16.4
<b>400 Transportation</b>							
Budget authority	46.5	42.0	36.6	42.3	43.1	43.9	208.0
Outlays	6.6	2.4	1.0	1.0	0.9	0.8	6.1
<b>450 Community and Regional Development</b>							
Budget authority	0.1	-0.5	-0.3	-0.4	-0.5	-0.5	-2.2
Outlays	0.0	-0.6	-0.7	-0.8	-0.9	-0.9	-4.0
<b>500 Education and Training</b>							
Budget authority	7.9	8.7	8.1	8.7	9.2	9.7	44.3
Outlays	7.6	8.5	8.1	8.4	8.9	9.2	43.1
<b>550 Health</b>							
Budget authority	154.8	185.5	209.0	227.0	245.2	265.9	1132.7
Outlays	154.9	187.1	210.7	227.6	245.4	265.3	1136.1
<b>570 Medicare</b>							
Budget authority	226.6	230.8	240.3	257.5	278.1	301.5	1308.1
Outlays	222.7	230.6	240.6	257.4	277.9	301.8	1308.3
<b>600 Income Security</b>							
Budget authority	262.8	274.2	279.1	287.9	298.9	307.6	1447.7
Outlays	263.1	271.1	275.4	284.2	295.0	303.4	1429.0
<b>650 Social Security</b>							
Budget authority	457.6	472.9	493.4	517.5	544.0	573.2	2601.0
Outlays	455.8	471.8	491.4	515.4	541.7	570.8	2591.1
<b>700 Veterans</b>							
Budget authority	27.0	30.1	32.0	33.5	35.1	36.6	167.3
Outlays	26.9	30.2	31.8	35.9	35.1	33.9	166.9
<b>750 Administration of Justice</b>							
Budget authority	2.0	4.9	4.2	2.6	2.6	2.6	16.9
Outlays	1.6	4.3	4.7	2.8	2.6	2.7	17.1
<b>800 General Government</b>							
Budget authority	1.4	1.5	3.0	1.8	1.9	1.8	10.0
Outlays	1.7	1.5	3.1	1.8	1.9	1.7	9.9
<b>900 Net Interest</b>							
Budget authority	178.4	180.7	188.8	190.2	188.3	185.3	933.4
Outlays	178.4	180.7	188.8	190.2	188.3	185.3	933.4
<b>920 Allowances</b>							
Budget authority	27.0	8.0	1.5	0.0	0.0	0.0	9.5
Outlays	27.0	8.0	1.2	-0.1	0.2	0.1	9.4
<b>950 Undistributed Offsetting Receipts</b>							
Budget authority	-55.2	-74.1	-100.2	-100.4	-98.6	-98.4	-471.7
Outlays	-55.2	-74.1	-100.2	-100.4	-98.6	-98.4	-471.7

**Table 3**

**BUSH 2003 BUDGET AS ESTIMATED BY OMB**  
**MANDATORY, NET INTEREST, AND OFFSETTING RECEIPTS ONLY**  
(In billions of dollars)

	2008	2009	2010	2011	2012 Second 5	10 Yr. Total	
Budget Authority	1734.2	1818.2	1905.2	2008.8	2090.8	9557.2	17090.6
Outlays	1668.1	1750.6	1838.8	1943.3	2015.4	9216.1	16467.0
<b>050 National Defense</b>							
Budget authority	0.1	0.1	0.1	0.1	0.1	0.5	2.5
Outlays	-0.1	-0.1	-0.1	-0.1	-0.1	-0.5	-0.3
<b>150 International Affairs</b>							
Budget authority	-0.8	-0.8	-0.4	-0.5	-0.5	-3.0	-9.0
Outlays	-2.9	-2.8	-2.9	-2.9	-3.0	-14.5	-29.9
<b>250 General Science, Space</b>							
Budget authority	0.0	0.0	0.0	0.0	0.0	0.1	0.3
Outlays	0.0	0.0	0.0	0.0	0.0	0.1	0.4
<b>270 Energy</b>							
Budget authority	-2.8	-2.9	-2.9	-2.9	-2.7	-14.3	-28.7
Outlays	-2.9	-3.0	-3.0	-3.0	-2.8	-14.6	-29.4
<b>300 Natural Resources and Environment</b>							
Budget authority	2.7	2.9	2.8	2.8	2.7	13.9	26.2
Outlays	2.4	2.6	2.6	2.6	2.5	12.6	21.9
<b>350 Agriculture</b>							
Budget authority	14.7	14.8	14.8	14.7	13.5	72.4	152.9
Outlays	14.7	14.8	14.9	14.7	13.5	72.6	152.9
<b>370 Commerce and Housing Credit</b>							
Budget authority	9.9	11.2	10.1	10.6	11.2	52.9	107.0
Outlays	1.1	1.3	0.9	0.5	-0.4	3.4	19.8
<b>400 Transportation</b>							
Budget authority	44.7	45.6	46.4	47.3	48.2	232.2	440.1
Outlays	0.8	0.8	0.8	0.8	0.8	4.0	10.1
<b>450 Community and Regional Development</b>							
Budget authority	-0.5	-0.5	-0.5	-0.5	-0.5	-2.5	-4.8
Outlays	-1.0	-1.0	-1.0	-1.0	-1.0	-4.8	-8.8
<b>500 Education and Training</b>							
Budget authority	9.3	8.9	9.2	9.3	9.5	46.2	90.6
Outlays	8.9	8.4	8.7	8.8	8.8	43.6	86.7
<b>550 Health</b>							
Budget authority	287.0	309.4	333.3	358.9	386.7	1675.3	2808.0
Outlays	286.6	309.1	333.3	359.0	387.0	1675.0	2811.0
<b>570 Medicare</b>							
Budget authority	321.5	342.9	364.7	393.2	410.9	1833.2	3141.3
Outlays	321.4	342.7	365.0	393.1	410.6	1832.8	3141.1
<b>600 Income Security</b>							
Budget authority	322.8	333.0	344.8	361.6	361.2	1723.3	3171.0
Outlays	316.3	327.3	340.3	357.0	356.4	1697.2	3126.3
<b>650 Social Security</b>							
Budget authority	605.5	642.3	682.5	725.1	771.8	3427.2	6028.1
Outlays	602.7	639.1	679.1	721.4	767.8	3410.1	6001.2
<b>700 Veterans</b>							
Budget authority	38.2	39.9	41.6	43.4	45.7	208.7	376.0
Outlays	38.0	39.7	41.5	46.5	42.2	208.0	374.9
<b>750 Administration of Justice</b>							
Budget authority	2.7	2.7	2.8	2.8	2.8	13.7	30.6
Outlays	2.7	2.8	2.8	2.8	2.8	13.9	31.0
<b>800 General Government</b>							
Budget authority	1.6	1.5	1.5	1.6	1.8	8.0	18.1
Outlays	1.7	1.5	1.5	1.5	1.7	7.9	17.8
<b>900 Net Interest</b>							
Budget authority	180.9	174.7	167.0	159.1	151.7	833.4	1766.8
Outlays	180.9	174.7	167.0	159.1	151.7	833.4	1766.8
<b>920 Allowances</b>							
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0	9.5
Outlays	0.1	0.1	0.0	0.0	0.0	0.2	9.5
<b>950 Undistributed Offsetting Receipts</b>							
Budget authority	-103.3	-107.3	-112.6	-117.8	-123.3	-564.2	-1035.9
Outlays	-103.3	-107.3	-112.6	-117.8	-123.3	-564.2	-1035.9

Table 3 (Continued)

## Function 050: National Defense

The budget includes \$396.1 billion for all national defense appropriated activities, including \$379.3 billion for the Department of Defense (DOD), \$15.6 billion for the nuclear weapons-related activities of the Department of Energy (DOE), and \$1.2 billion for miscellaneous national security activities in various other agencies such as the Coast Guard and the Federal Bureau of Investigation. The DOD total budget includes a \$10 billion reserve for anti-terrorism operations for 2003.

### The Department of Defense

- ***The Increase for the Department of Defense (DOD)*** — Determining the increase for the DOD is complicated this year by two different accounting changes that have no programmatic effect but nevertheless cause a \$5.4 billion increase in the DOD budget. The table below adjusts for this non-programmatic increase in order to make an “apples-to-apples” comparison of the 2003 budget with the 2002 enacted level. See *Defense and the Budget* for a detailed explanation of this adjustment.

#### Determining the Nominal Programmatic Increase for DOD (Budget Authority in Billions of Dollars)

2002 Level	331.2
2003 Budget	379.3
Apparent Increase	48.1
<i>Less: Adjustments for Accounting Changes</i>	<u>-5.4</u>
<b>Programmatic Increase for DOD</b>	<b>42.8</b>

*Numbers do not add exactly due to rounding.*

As the table indicates, after adjusting for the accounting changes, the nominal DOD programmatic increase over the 2002 enacted level, including the \$10 billion reserve, is \$42.8 billion (12.8 percent). It is \$33.5 billion (9.8 percent) more than needed, according to CBO, to maintain purchasing power at the 2002 level.

If the \$10 billion reserve is excluded from the calculation, the increase is \$32.8 billion (9.8 percent) over the 2002 enacted level. This increase is \$23.5 billion (6.8 percent) more than needed, according to CBO, to maintain purchasing power at the 2002 level. For a discussion of how this increase compares to past DOD increases, see *Defense and the Budget*.

- **Military Pay** — The budget includes an across-the-board raise in basic military pay of 4.1 percent. This level is mandated by law to equal the Employment Cost Index rate (in this case 3.6 percent) plus another 0.5 percent. In addition to the across-the-board raise, the budget also includes targeted pay raises of up to 2.0 percent for mid-grade officers and enlisted personnel.

The budget also includes funding to continue an initiative begun by the Clinton Administration to gradually eliminate all “out-of-pocket” housing costs for military personnel living off-base by 2005 through increases to the basic allowance for housing (BAH). The budget increases BAH so that out-of-pocket expenses will be lowered from 11.3 percent in 2002 to 7.5 percent in 2003.

**The DOD Budget by Major Account:  
Comparisons with the 2002 Level and  
the Level Needed to Maintain Purchasing Power**  
(Budget Authority in Billions of Dollars)

	2003 <u>Budget</u>	Enacted <u>2002</u>	Dollar <u>Change</u>	Percent <u>Change</u>	Inflation- Adjusted <u>2002</u>	Dollar <u>Change</u>	Percent <u>Change</u>
O&M	150.2	125.5	24.7	19.7	129.6	20.6	15.9
Procurement	68.7	61.6	7.1	11.6	62.7	6.0	9.5
RDT&E	53.9	48.8	5.1	10.5	49.8	4.1	8.1
MilCon	4.8	6.5	-1.7	-26.7	6.8	-2.0	-29.0
Family Housing	4.2	4.1	0.1	3.5	4.1	0.1	1.5

*Numbers may not add exactly due to rounding.*

- **Department of Defense by Major Account** — The budget includes substantial increases for every major DOD account except military construction, which is cut, and family housing, which increases modestly. The table above adjusts the 2002 level for the accounting changes mentioned in the discussion of the true increase for DOD, as explained in *Defense and the Budget*. The table compares the President’s request with both the 2002 enacted level and the level needed, according to CBO, to maintain purchasing power at the 2002 level (the “Inflation-Adjusted” column).<sup>11</sup>

As the table indicates, the major DOD accounts related to current and future military performance – Operations and Maintenance (O&M); Research, Development, Test, and

<sup>11</sup>Military personnel is excluded from the table because of anomalies that occur when trying to adjust for inflation.

Evaluation (RDT&E); and Procurement – increase substantially. The inflation-adjusted comparison indicates that DOD is receiving substantial real (inflation-adjusted) increases.

- **Operations and Maintenance (O&M)** — The O&M account is critical to readiness because it funds training, military exercises, military operations, spare parts, fuel, and all the other items a military force needs to operate. As the table indicates, the O&M budget is almost \$25 billion more than the 2002 enacted level, but \$10 billion of this difference is due to the reserve for DOD anti-terrorism operations for 2003. If this reserve is excluded, the increase is \$14.7 billion, which is \$10.6 billion (8.2 percent) more than is needed, according to CBO, to maintain purchasing power at the 2002 level.
- **Procurement** — The budget includes \$68.7 billion for procurement of weapons systems and military equipment. This level is \$7.1 billion (11.6 percent) more than the 2002 enacted level, and is \$6.0 billion (9.5 percent) more than needed, according to CBO, to maintain purchasing power at the 2002 level.
- **Research and Development** — The budget includes \$53.9 billion for 2003 for research, development, test, and evaluation programs (RDT&E). This level is \$5.1 billion (10.4 percent) more than the 2002 enacted level, and \$4.0 billion (8.0 percent) more than needed, according to CBO, to maintain purchasing power at the 2002 level.
- **Ballistic Missile Defense** — The budget includes \$7.8 billion within several RDT&E accounts for ballistic missile defense (BMD) research and development. Most (\$6.7 billion) of the funding is within the Missile Defense Agency, which replaces the former Ballistic Missile Defense Organization. The 2003 budget is approximately the same as the 2002 enacted level for overall BMD funding. Not enough information is available at this time to make program-to-program comparisons.

### The Quadrennial Defense Review

The Quadrennial Defense Review (QDR) is a report mandated by Congress every four years to ensure that the Pentagon is rigorously reviewing strategy and force structure requirements. The first QDR was released in 1997. The 1997 QDR was the fourth major attempt by the Pentagon to reassess the size and composition of U.S. Armed Forces since the end of the Cold War, but the other reviews were not known as QDRs.

The most recent QDR was released last Fall, but did not receive much attention in the aftermath of September 11. The force levels it recommends are remarkably similar to the Clinton Administration's force structure levels. A comparison of force structure is on the next page.

**Comparing Force Structure:  
The 1997 Force and the Current Force Plan**

	<u>1997 QDR</u>	<u>Current Plan</u>
Army Divisions	10/8	10/8
Marine Corps Divisions	3/1	3/1
Aircraft Carriers	11/1	12
Carrier Air Wings	10/1	10/1
Attack Submarines	50	53
Surface Combatants	106/10	102/11
USAF Fighter Wings	12 <sup>+</sup> /8	12 <sup>+</sup> /7 <sup>+</sup>

Note: Dual entries show Active/Reserve Quantities.<sup>12</sup>  
Source: Department of Defense

- ***DOD Nonproliferation*** — The bulk of U.S. nonproliferation funding is within the Department of Energy, but the DOD budget includes the Cooperative Threat Reduction program. This program is often called the Nunn-Lugar program, after the primary legislative sponsors of it, former Sen. Sam Nunn and Sen. Richard Lugar. The Nunn-Lugar program focuses on the dismantlement of nuclear missiles and chemical weapons. The accomplishments of the Nunn-Lugar program to date include 5,336 nuclear warheads deactivated and 442 intercontinental ballistic missiles destroyed.

The budget includes \$417 million for the Nunn-Lugar program, which is \$76 million more than the 2002 enacted level. While this is a substantial increase, it is somewhat misleading because the program has historically been funded at more than \$400 million per year. For example, the 2001 enacted level was \$441 million. The President's budget restores the program nearer to its historical average.

## **The War on Terrorism and DOD's Share of Homeland Security**

DOD estimates that the 2003 budget includes a total of \$22.2 billion for the war on terrorism, an increase of \$11.7 billion over the 2002 enacted level. OMB also estimates that the 2003 DOD budget includes \$7.8 billion for homeland security, an increase of \$3.0 billion over the 2002 enacted level. Thus, only \$30.0 billion (the total of \$22.2 billion and \$7.8 billion), which is less than 10 percent of the DOD budget, is directly related to the war on terrorism and homeland security.

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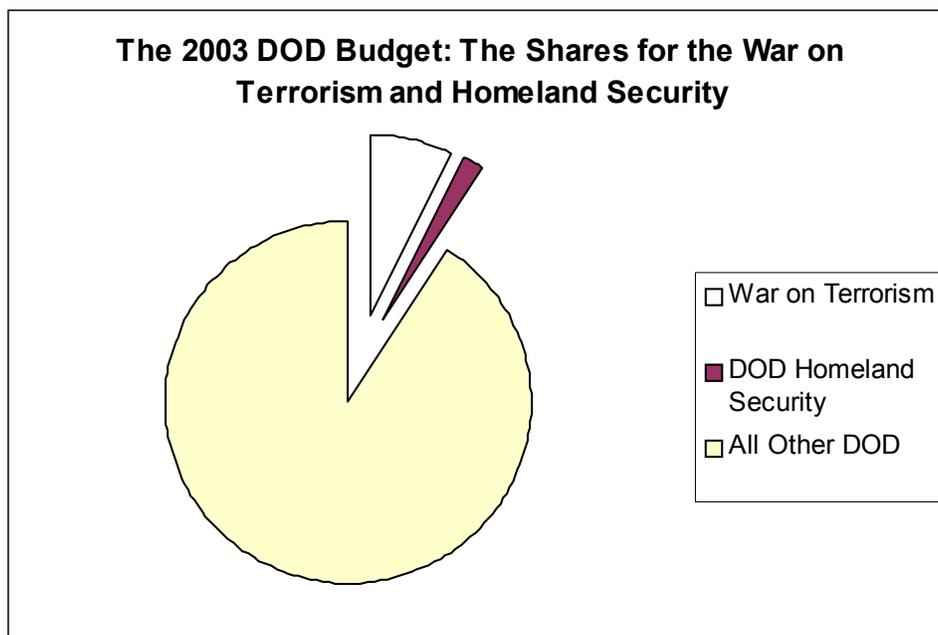
<sup>12</sup>The "+" in the U.S. Air Force fighter wings category indicates that there are more planes available but not enough to qualify as another whole wing.

**Summary of DOD Funding  
for the War on Terrorism and Homeland Security**  
(Budget Authority in Billions of Dollars)

	<u>2002</u>	<u>2003</u>	<u>Increase</u>
War on Terrorism	10.5	22.2	11.7
DOD Share of Homeland Security	<u>4.8</u>	<u>7.8</u>	<u>3.0</u>
<b>Total, Anti-terrorism/Homeland Security</b>	<b>15.3</b>	<b>30.0</b>	<b>14.7</b>

Moreover, of the \$42.8 billion programmatic increase, only \$14.7 billion — about one-third — is directly related to the war on terrorism and homeland security (the \$14.7 billion is the total of the \$11.7 billion increase for the war on terrorism and the \$3.0 billion increase for DOD homeland security). The pie chart below graphically illustrates how much of the DOD budget is not related to either the war on terrorism or homeland security:

See *Homeland Security* for a broader review of homeland security and the 2003 budget.



## Department of Energy National Security Activities

The budget provides \$15.6 billion for the nuclear weapons-related activities of the Department of Energy (DOE). This level is approximately \$525 million (3.5 percent) more than the 2002 enacted level, and is \$214 million (1.4 percent) more than the level needed, according to CBO, to maintain purchasing power at the 2002 level.

- ***Stockpile Stewardship*** — This program maintains the safety and reliability of nuclear weapons in the absence of underground tests. Stockpile stewardship relies on computer modeling, surveillance of weapons, and experiments that do not produce nuclear yields. The budget provides \$5.9 billion for the stockpile stewardship program, which is \$309 million more than the enacted 2002 level.
- ***Nuclear Nonproliferation Programs*** — The DOE oversees several important programs to stop the spread of nuclear materials to terrorist groups and nations that are hostile to the United States. Most of these programs are focused on Russia and other states of the former Soviet Union. The budget provides \$1.1 billion for these programs for 2003, which is \$84 million more than the 2002 enacted level. This is a sharp departure from last year's budget, which proposed only \$774 million, a cut of approximately \$100 million below the enacted 2001 level. Congress rejected the President's budget last year for these important programs, adding a total of \$256 million in the regular and supplemental appropriations bills.
- ***Clean Up Radioactive Waste at Former Weapons Production Sites*** — The budget provides a total of \$7.1 billion to mitigate or clean up nuclear and other hazardous waste at the former nuclear weapons production sites of the Department of Energy. This level is only \$153 million more than the enacted 2002 level, and is only \$12 million more than the level needed, according to CBO, to maintain purchasing power at the 2002 level.

## Function 150: International Affairs

Function 150 contains funding for all U.S. international activities, including: operating U.S. embassies and consulates throughout the world; providing military assistance to allies; aiding developing nations; dispensing economic assistance to fledgling democracies; promoting U.S. exports abroad; making U.S. payments to international organizations; and contributing to international peacekeeping efforts. Funding for all of these activities constitutes about one percent of the federal budget.

- ***Overall International Affairs Budget*** — Overall, the President’s budget provides \$25.4 billion in funding for appropriated international affairs programs. This amount is \$872 million more than the amount needed, according to CBO, to maintain purchasing power for all non-emergency programs in this function (not including emergency expenditures in response to September 11). The total for 2003 includes \$124 million to cover all retirement pension and health costs for all federal employees beginning in 2003, and is an accounting change that does not reflect a programmatic funding increase.
- ***International Affairs Increase is Smaller than Funding Provided Last Year in Response to September 11***  
— As part of the \$40 billion supplemental appropriation passed last year in response to the September 11 attacks, \$1.6 billion was provided in emergency funding for international affairs programs. The 2003 budget increase for international affairs of \$872 million represents 55.8 percent of this amount. The \$1.6 billion in emergency supplemental funding included \$600 million for Economic Support Fund assistance to Pakistan, \$73 million for improved border security in Pakistan, \$146 million in USAID disaster assistance and \$95 million in food aid for Afghanistan, \$98 million for Non-Proliferation, Anti-Terrorism, Demining, and Related Programs, and \$100 million for assistance for refugees in Pakistan and related countries.

### ***Funding for Afghanistan: To Be Determined***

The Administration has pledged \$296 million in assistance to Afghanistan for 2002. However, the President’s 2003 budget does not include funding levels for assistance to Afghanistan. Funding levels for Afghanistan are listed as “To Be Determined” for a number of major aid programs: development assistance, Economic Support Fund, Foreign Military Financing, and International Military Education and Training. It remains to be seen whether funding for Afghanistan will be sought through supplemental appropriations, an amended budget request, or unspecified cuts to other countries and programs in the international affairs budget.

## Funding Increases

- ***Diplomatic and Consular Programs*** — The budget provides \$4.0 billion for the operations of most diplomatic and consular programs, including support of our embassies and much of the State Department. This amount is \$271 million more than the amount needed, according to CBO, to maintain constant purchasing power at the 2002 level. (This CBO level does not include the \$136 million provided for Diplomatic and Consular Programs in response to the September 11 attacks.)
- ***Foreign Military Financing (FMF)*** — The budget provides \$4.1 billion for Foreign Military Financing, which is \$387 million more than the amount needed, according to CBO, to maintain constant purchasing power at the 2002 level. (This 2002 level does not include the \$45 million in FMF assistance provided in the wake of September 11).

The budget increases FMF assistance for Jordan to \$198 million, compared to a 2002 level of \$75 million, and provides \$50 million each in FMF assistance to India and Pakistan, neither of which received FMF assistance last year. The budget provides smaller increases in FMF assistance to a number of countries; including Oman, Turkey, Uzbekistan, and Yemen. The budget also provides \$98 million in new FMF assistance to Colombia.

In 1998, Israel and the United States reached an agreement to increase FMF assistance to Israel and to decrease Economic Support Fund aid over time (see below). The budget maintains the funding glide path envisioned in the 1998 agreement, including \$2.1 billion for FMF assistance for Israel, which is \$60 million more than provided in 2002. The budget includes \$1.3 billion in FMF assistance for Egypt, which has been the typical level of FMF assistance for Egypt since 1986. The budget does not include a funding level for Afghanistan within this program (see text box on previous page).

- ***Economic Support Fund (ESF)*** — The budget includes \$2.3 billion in ESF assistance for about 50 countries and organizations, which is \$27 million more than the amount needed, according to CBO, to maintain purchasing power at the 2002 level. However, this CBO level does not include \$600 million in ESF assistance to Pakistan provided for this program in response to the September 11 attacks.

The budget increases ESF assistance to Pakistan from a 2002 level of \$10 million to a 2003 level of \$200 million; to Jordan from a 2002 level of \$150 million to a 2003 level of \$250 million; and to India from \$7 million to \$25 million. Smaller increases are provided for a number of countries; including Indonesia, Yemen, Bangladesh, and Nepal. The budget does not include a funding level for Afghanistan for this program for 2003 (see text box on previous page).

As discussed above, in 1998 Israel and the United States agreed to increase Foreign Military Financing assistance to Israel and decrease ESF assistance to Israel over time (see below). The budget maintains the funding glide path envisioned in this agreement, providing \$600 million in ESF assistance to Israel, \$120 million less than the amount provided in 2002. In a separate agreement reached by Egypt and the United States in 1998, ESF assistance to Egypt was scheduled to decrease over time. The budget reflects this agreement, providing \$615 million in ESF assistance for Egypt, \$40 million less than the amount provided in 2002.

- ***Non-Proliferation, Anti-Terrorism, Demining, and Related Programs (NADR)***—The budget provides \$372 million for NADR programs, which, among other things, provide anti-terrorism training to foreign governments and work to reduce the dangers posed by nuclear material. This amount is \$51 million more than the amount needed, according to CBO, to maintain constant purchasing power at the 2002 level (not including emergency supplemental appropriations in response to September 11). The emergency supplemental appropriations provided \$98 million for NADR programs.
- ***Anti-Narcotics Funding*** — The budget includes \$929 million for all international antinarcotics programs, including \$731 million for an expanded Andean counternarcotics control program. The budget provides \$71 million more than the amount needed, according to CBO, to maintain constant purchasing power at the 2002 level for all international antinarcotics programs.

***U.S. Foreign Aid in Comparison to Other Developed Countries*** —According to the most recent (2000) foreign aid figures from the Organization for Economic Cooperation and Development (OECD), the United States ranks 22<sup>nd</sup> in the world as a giver of foreign aid as a percentage of Gross National Product (GNP). The U.S. level is one-tenth of one percent of GNP, which is about one-fourth of the average effort of developed countries. In absolute amount of foreign aid, the United States has ranked second behind Japan for several years.

## Funding Reductions

- ***Funding Cut for Eastern Europe*** — The budget provides \$495 million for the Support for Eastern European Democracy (SEED) program, which is \$126 million less than the 2002 enacted level and \$138 million less than the amount needed, according to CBO, to maintain purchasing power at the 2002 level.
- ***Funding Cut for Newly Independent States*** — The budget provides \$755 million for assistance to the Independent States of the Former Soviet Union. This amount is \$29 million less than the 2002 enacted level, and \$44 million less than the amount needed, according to CBO, to maintain purchasing power at the 2002 level. In the aftermath of September 11, \$47 million of the \$40 billion in emergency funding was provided for assistance to the Independent States of the Former Soviet Union, which include Uzbekistan and other Central Asian states. If this emergency funding is included in the

2002 totals, then the President's budget reduces funding in this account by \$76 million relative to the 2002 enacted level and by \$91 million relative the amount needed to maintain purchasing power at the 2002 level.

- ***Funding Reduced for Export-Import Bank of the United States*** — As the official credit agency of the United States, the Ex-Im Bank provides financing assistance to U.S. exporters and, when necessary, matches foreign subsidies so that U.S. companies can compete for business on an equal footing (approximately 77 countries provide export credit or subsidies). The budget cuts the Ex-Im Bank's credit subsidy to \$541 million, \$186 million (26 percent) below the 2002 level. The Administration asserts that, because of a new credit risk methodology, this reduced funding can support an increased level of loan activity.

## Function 250: General Science, Space, and Technology

This function includes the National Science Foundation (NSF), programs at the National Aeronautics and Space Administration (NASA) except for aviation programs, and general science programs at the Department of Energy (DOE).

The President's budget provides \$22.5 billion in funding for appropriated programs for 2003, almost the exact amount needed, according to CBO, to maintain purchasing power at the 2002 level. This amount includes \$120 million to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for federal employees. This increase reflects only this accounting change and does not represent a programmatic increase. See *Appropriated Programs* for further discussion.

- **National Science Foundation** — The budget for 2003 provides \$5.0 billion for appropriated programs in NSF. This is an increase of \$151 million over the amount needed, according to CBO, to maintain purchasing power at the 2002 level. However, this increase incorporates two programs that the budget transfers to NSF: the National Oceanographic and Atmospheric Administration's Sea Grant program (\$64 million) and the U.S. Geological Survey's toxic substances hydrology research program (\$10 million). Thus, the increase for NSF programs is only \$77 million over the amount needed to maintain purchasing power at the 2002 level. NSF continues funding for nanotechnology and provides funding for research related to terrorism, information technology, mathematics, and climate change.
- **NASA** — The budget provides \$14.3 billion for NASA programs for 2003 in this function, which is the amount needed, according to CBO, to maintain purchasing power at the 2002 level. Another \$837 million for NASA science, aeronautics, and technology is included in Function 400 (Transportation), bringing NASA's total to \$15.1 billion. The budget cuts human space flight activities by \$700 million from the 2002 enacted level of \$6.8 billion. This function provides \$8.1 billion for NASA science, aeronautics, and technology, which is an increase of \$797 million over the 2002 enacted level.
- **DOE General Science Programs** — The budget freezes funding at the 2002 enacted level of \$3.3 billion for appropriations for general science programs in the DOE. These programs include energy-related basic research in the following areas: the health and environmental consequences of producing and developing energy; new energy technologies and environmental mitigation; fusion as a potential energy source; advanced computational and networking tools critical to science research; and fundamental energy research.

## Function 270: Energy

Function 270 comprises energy-related programs including research and development (R&D), environmental clean-up, and rural utility loans. Most of the programs are within the Department of Energy (DOE), although the rural utility program is part of the Department of Agriculture.

The President's budget for 2003 provides \$3.3 billion in appropriated funding for these programs, \$53 million of which is to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for employees. This increase reflects only this accounting change and does not represent a programmatic increase. See *Appropriated Programs* for further discussion. The funding for 2003 is \$119 million below the level needed, according to CBO, to maintain purchasing power at the 2002 level. Over the five-year period (2003-2007), appropriated energy programs face a \$173 million cut.

The receipts from marketing federally produced power and the fees that commercial nuclear reactors pay when generating electricity are recorded as negative mandatory spending in this function. Consequently, total mandatory spending is negative; the government makes more money than it spends on these energy programs.

- ***Drilling in the Arctic National Wildlife Refuge (ANWR)*** — Like last year, the President's budget again assumes the opening of ANWR to oil and gas drilling, and the use of the proceeds to fund alternative energy. The budget includes \$150 million from drilling in ANWR beginning in 2004, with a ten-year (2003-2012) total of \$1.2 billion. See *Function 300 (Natural Resources and Environment)* for further discussion.
- ***Power Marketing Administrations (PMAs)*** — The budget provides \$205 million for the three federally subsidized PMAs, which sell to public utilities and cooperatives the electricity generated primarily by hydropower projects at federal dams. This represents a cut of \$10 million (4.8 percent) from the 2002 enacted level.

PMAs can arrange to buy and re-sell, or "wheel," power from other electricity producers. Currently, the net appropriation for wheeling is recognized as zero and the Appropriations Committee is not charged for the funding it appropriates for wheeling. However, the 2003 budget changes this provision for Southeastern, Southwestern, and Western Area PMAs. The budget assumes PMA customers will enter energy markets to arrange directly with suppliers for their energy and related service needs; the PMAs may continue to assist their customers in arranging the funding of these activities, but through alternative financing mechanisms. Last year, the President's budget reflected \$222 million for wheeling, which represented additional funding available to the PMAs that will not be available for 2003.

The Administration's budget also provides an additional \$700 million in borrowing authority for Bonneville Power Administration. This additional authority allows

Bonneville to finance new energy infrastructure investments in the Northwest to assure the continuity of a reliable Northwest energy supply. The proposal costs \$149 million for 2003.

- ***Renewable Energy Winners and Losers*** — Renewable energy programs receive \$408 million for 2003 in the budget, a \$21 million (5.5 percent) increase over the 2002 enacted level. The hydropower program receives a \$2 million (49.2 percent) increase, hydrogen research receives an \$11 million (36.7 percent) increase, and wind energy programs receive a \$5 million (13.9 percent) increase. Other programs are cut by small amounts from the 2002 level: geothermal cut by \$1 million (2.9 percent); biomass cut by \$2 million (2.3 percent); and solar research cut by \$2 million (2.0 percent).
- ***Fossil Energy Research and Development*** — The budget provides \$594 million for fossil energy R&D, a decrease of \$39 million (6.2 percent) from level needed, according to CBO, to maintain purchasing power at the 2002 level. The Natural Gas Technologies program, which seeks to ensure long-term availability of natural gas at reasonable prices and to investigate hydrates as a potential source for natural gas supply, is cut by \$23 million (50.0 percent) from the 2002 level. The budget provides \$150 million for the President’s Coal Initiative, the same amount provided for 2002. The budget also includes \$175 million for Coal Research and Technology, \$12 million (6.8 percent) less than was provided last year.
- ***Energy Conservation*** — The budget includes \$905 million for energy conservation programs, which is \$27 million (2.9 percent) below the amount needed, according to CBO, to maintain funding at the 2002 level. The budget provides for a \$47 million (20.5 percent) increase for weatherization grants, and a \$5 million (19.7 percent) increase for the Federal Energy Management Program. These increases stand in contrast to cuts of 8-14 percent in other energy conservation programs such as the transportation sector, energy conservation research and development, and state energy program grants.
- ***Nuclear Waste Disposal*** — The budget provides \$212 million to find a permanent method to dispose of commercial spent nuclear fuel and high-level radioactive waste resulting from the nation’s atomic energy defense activities. This level represents an increase of \$115 million (118.0 percent) above the 2002 enacted level. (The budget includes in Function 050 (National Defense) an additional \$315 million for disposal of weapons-related nuclear waste.) This funding is primarily for DOE to determine the viability of Yucca Mountain, Nevada, as the site for a permanent geological repository for nuclear waste.
- ***Elk Hills School Land Fund Change*** — Like last year, the budget includes a “catch-up” provision for the settlement of longstanding claims by the State of California to certain Elk Hills school district lands. The agreement between DOE and California provided for

seven annual payments, the first five in the amount of \$36 million with the remaining balance to be paid in two equal installments in years six and seven. The first installment was made in 1999. No installment was made in 2000, but the 2000 appropriation made \$36 million available for 2001 (an “advance appropriation”). The appropriations bills for 2001 and 2002 also included advance appropriations for the Elk Hills School Lands Fund. The President’s 2003 budget includes the advance appropriation made last year and the regular appropriation for \$36 million. This accounting technicality creates the appearance of a \$36 million increase for 2003, but in fact represents no real change in the overall cost of this program.

## Function 300: Natural Resources and Environment

Function 300 includes programs concerned with environmental protection and enhancement; recreation and wildlife areas; and the development and management of the nation's land, water, and mineral resources. This function does not include the large-scale environmental clean-up programs at the Departments of Defense and Energy.

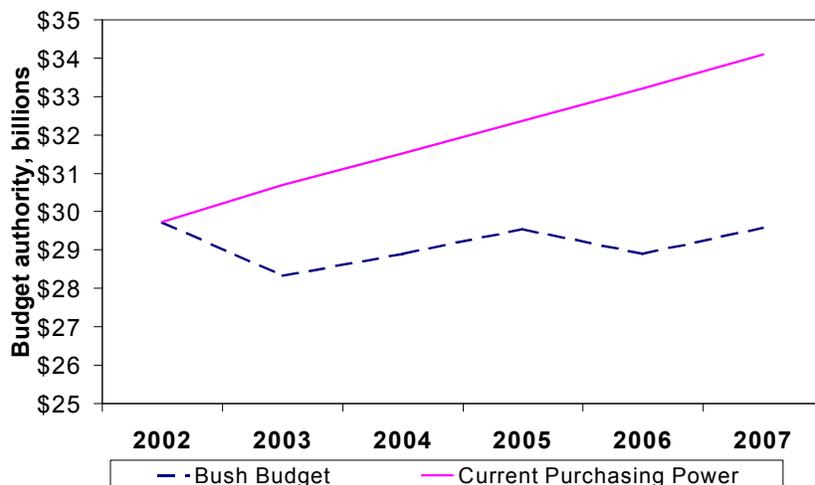
### Budget Summary

In the area of natural resources and environment, the President's budget is very much a repeat of last year. In general, the budget again contains significant cuts to Function 300 funding for 2003 and for the years beyond. In the specifics, the budget contains many of the same proposals that were in last year's budget and that Congress flatly rejected.

For 2003, the President's budget significantly cuts funding for programs that protect public health and the environment. The budget provides \$28.3 billion in appropriations for these programs, which is \$1.5 billion (5.0 percent) below a freeze at the 2002 level and \$2.4 billion (7.7 percent) below the level needed, according to CBO, to maintain purchasing power at the 2002 level. The President's budget continues to cut the purchasing power of these programs in the following four years. By 2007, the budget's funding for appropriated programs is \$4.5 billion (13.2 percent) below the level required to maintain purchasing power at the 2002 level.<sup>13</sup>

### Budget Details

#### Function 300 Appropriations



<sup>13</sup> For these comparisons, the 2002 funding totals and all future years' funding totals are adjusted for the Administration's accrual proposal for the pension and health-care costs of federal employees. This proposal is an accounting change that does not have any programmatic impact.

- ***Conservation Category Flat-Lined*** — Like last year, the President’s budget backtracks on the landmark agreement made at the end of the 106<sup>th</sup> Congress to set aside and protect funds for land and water conservation programs. An overwhelming and bipartisan majority in Congress voted to create a new category of appropriated funding for these important and historically underfunded programs. For 2001-2006, a total of \$12 billion is “fenced off” from other appropriated funds, and if appropriators do not utilize all of the funds in the category in any one year, any unused funding is available for appropriation the next fiscal year.

Under the agreement, the budget should allocate just over \$1.9 billion for a pre-defined set of programs aimed at habitat and species protection, urban and historic preservation, maintenance of public lands, and other related purposes. However, the President’s budget provides roughly \$1.7 billion, \$250 million (13.1 percent) less than called for by the agreement.

- ***Land and Water Conservation Fund Programs*** — Like last year, the President’s budget claims to fully fund at \$900 million the programs associated with the Land and Water Conservation Fund (LWCF). (These programs are contained within the conservation spending category described above.) However, like last year, the budget accomplishes this feat by using LWCF funding for programs not traditionally associated with the Fund. Full funding would mean \$900 million split evenly between federal land acquisition and grants to states for the same purpose. In fact, the President’s budget provides only \$486 million for the traditional purposes of the Fund, which is \$88 million less than last year and \$175 million less than the amount requested for these programs for FY 2003 by a coalition of environmental organizations.
- ***Drilling in the Arctic National Wildlife Refuge*** — Like last year, the President’s budget assumes opening the Arctic National Wildlife Refuge (ANWR) to oil and gas exploration. Although assumed in the budget, the Administration cannot implement this extremely controversial proposal without new legislation from Congress. Both the House and the Senate declined to include this proposal when crafting their respective budget resolutions last year.

The budget includes \$1.2 billion from lease bonuses for the federal treasury and \$1.2 billion collected and disbursed to the state of Alaska in 2004. Receipts also occur in later years, resulting in a total of \$3.2 billion in receipts over the ten-year period, half of which go to Alaska. See *Function 950 (Undistributed Offsetting Receipts)* for more details.

- ***Army Corps of Engineers*** — In another repeat from last year, the President’s budget again makes a significant cut to appropriations for the Army Corps of Engineers. This

year, the budget cuts the Corps budget to \$4.3 billion,<sup>14</sup> \$369 million (7.9 percent) below a freeze at the 2002 level and \$511 million (10.6 percent) below the level needed, according to CBO, to maintain purchasing power at the 2002 level. The budget includes no new construction efforts for 2003 and instead focuses on completing ongoing projects.

- ***Environmental Protection Agency (EPA)*** — For 2003, the President's budget provides \$7.7 billion in appropriations for EPA, \$461 million (5.6 percent) less than a freeze at the 2002 level. This funding level is \$661 million (7.9 percent) below the level needed, according to CBO, to maintain purchasing power at the 2002 level. As described below, this cut falls mostly on water infrastructure funding.
- ***Aid for Water Infrastructure*** — For 2003, the President's budget provides \$1.2 billion for the Clean Water State Revolving Fund (SRF) Program, \$138 million (10.2 percent) less than last year. For the Drinking Water SRF Program, the budget freezes funding at the 2002 level of \$850 million. Finally, the budget zeroes out \$344 million in Congressional earmarks but fails to reinvest this money in other water infrastructure programs. Overall, the cut to water infrastructure aid totals \$482 million from the 2002 freeze level.
- ***Small Watershed Program Eliminated*** — The budget eliminates P.L.-566, the Small Watershed Program in the Department of Agriculture. Last year, the Administration requested \$100 million for the program, and appropriators provided about \$107 million. The backlog of approved Small Watershed Program projects stood at \$1.6 billion at the beginning of October. The Small Watershed Program provides cooperation between the federal government and states and localities to prevent erosion, floodwater, and sediment damages; to further the conservation, development, utilization, and disposal of water; and to further the conservation and proper utilization of land in authorized watersheds. OMB argues that the cost-benefit ratios for the projects do not make economic sense, but minimizes the fact that costs appear high for projects that involve flood control or drinking water supply projects in areas with low population density.

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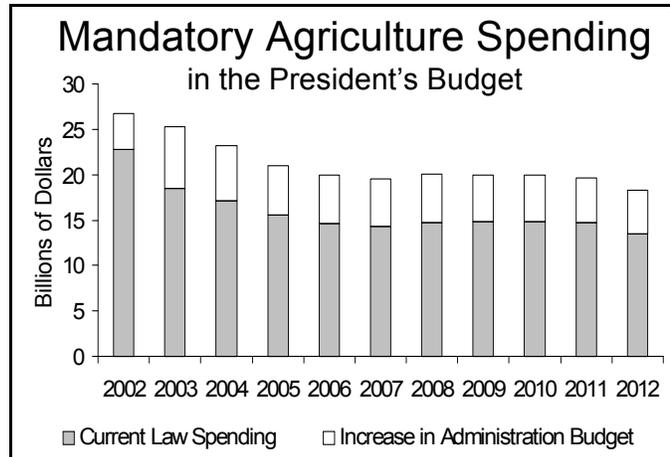
<sup>14</sup> Some presentations show the Army Corps budget at \$4.1 billion. This discrepancy exists because the budget proposes to finance the costs of routine operation and maintenance of certain Army Corps hydropower facilities directly from receipts of the Power Marketing Administrations. This proposal, which requires new legislation from Congress, has the effect of lowering the Corps appropriations total by \$149 million for 2003. This proposal has been excluded from the analysis in order to provide a consistent comparison with the 2002 appropriations.

## Function 350: Agriculture

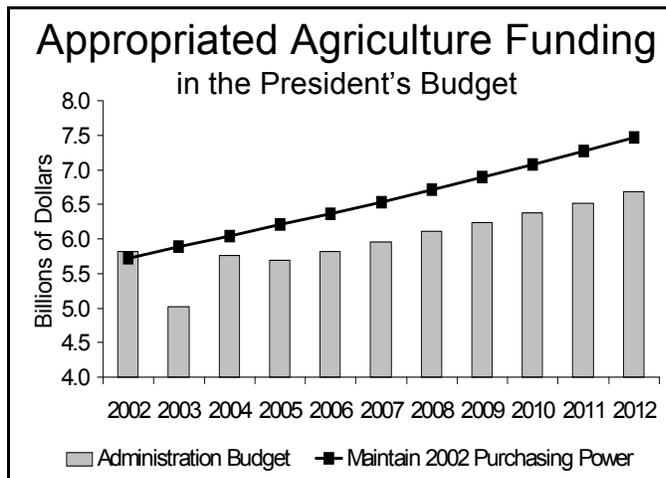
Function 350 includes farm income stabilization, agricultural research, and other services administered by the U.S. Department of Agriculture (USDA). The discretionary programs include: research, education, and rural development programs; economics and statistics services; meat and poultry inspection; and a portion of the Public Law (P.L.) 480 international food aid program. The mandatory programs include commodity programs, crop insurance, and certain farm loans.

### The New Farm Bill

The President's budget reflects the likely \$73.5 billion increase needed to reauthorize the Farm Bill, \$54.1 billion of which is reflected in Function 350 mandatory spending. Both the House-passed bill and pending Senate bill cost \$73.5 billion over ten years. While the House and Senate bills currently provide different amounts for commodity programs, agricultural research, credit programs, crop insurance, and other costs likely to be included in Function 350, the amounts are roughly comparable to the amount the



budget provides.



### Appropriated Programs Cut

The President's budget provides \$5.0 billion for appropriated agriculture programs for 2003, \$870 million below the amount needed, according to CBO, to maintain purchasing power at the 2002 level. Over the ten-year period (2003-2012), the budget cuts agriculture funding by \$6.3 billion. The budget plans management efficiencies for USDA that include: restructuring administrative

support offices; reviewing the field office structure, with the goal of co-locating at least 200 additional offices in 2003; centralizing loan servicing functions that do not need to be performed at the field level; and developing a plan for competitively sourcing 15 percent of its commercial activities by the end of 2003.

## Other Program Highlights

- ***Agricultural Research and Services*** — The budget provides \$3.5 billion for agriculture research and services, \$512 million (12.7 percent) less than the amount needed, according to CBO, to maintain purchasing power at the 2002 level. Agencies that receive funding in this category include: the Animal and Plant Health Inspection Service; the Foreign Agriculture Service; the Agricultural Marketing Service; the National Agricultural Statistics Service; the Economic Research Service; and the Cooperative State Research, Education, and Extension Service.
- ***Accruals*** — For 2003, the budget provides \$161 million in appropriated funding and \$11 million in mandatory spending to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for employees. This increase reflects only this accounting change and does not represent a programmatic increase. See *Appropriated Programs* for further discussion.
- ***New User Fees*** — The Administration budget includes two user fee proposals for the Grain Inspection, Packers and Stockyards Administration (GIPSA). Fees are assessed on those who receive, ship, store, or process grain (raising \$6 million in 2003) to cover the costs of developing, reviewing, and maintaining official U.S. grain standards used by the grain industry. New license fees are also assessed on packers, live poultry dealers, stockyard owners, market agencies and dealers (raising \$23 million in 2003) to fund the Packers and Stockyards program.

## Function 370: Commerce and Housing Credit

Function 370 includes deposit insurance and financial regulatory agencies such as: the Securities and Exchange Commission (SEC); the mortgage credit programs of the Department of Housing and Urban Development (HUD); the Department of Commerce's Census Bureau, its business promotion programs, and its technology development programs; rural housing loans; the Small Business Administration's business loans; the Postal Service (USPS); and other regulatory agencies such as the Federal Communications Commission (FCC).

### Appropriated Programs

Under the President's budget, appropriated funding for Function 370 for 2003 is negative \$403 million, a decrease of \$1.7 billion from the 2002 enacted level of \$1.3 billion. Negative spending levels in this function are relatively commonplace because credit programs and the fee-funded programs in the function often receive more in collections than they spend. The difference between the 2003 level and the 2002 enacted level results, among other reasons, because the 2003 budget does not continue 2002 increases for USPS response to anthrax attacks and because the budget cuts technology programs as discussed below.

- ***Budget Provides No New Money for Postal Service to Respond to September 11***— The budget provides no new funding for USPS to respond to the challenges posed by the September 11 and subsequent anthrax attacks. In November, the Postmaster General testified that USPS needed assistance of \$3 billion or more to respond to the direct effects of the September 11 and anthrax attacks and to purchase new equipment and implement new security procedures to prevent future attacks. As part of the \$40 billion in emergency supplemental appropriations provided last year, USPS received \$675 million toward these purposes. The 2003 budget provides no additional funding for these purposes. In his November testimony, the Postmaster General also requested an additional \$2 billion appropriation to help USPS make up the revenue shortfall experienced in the wake of the attacks. The budget does not provide any funding for this purpose.
- ***Budget Fails to Fund Securities and Exchange Commission (SEC) Pay Parity*** — In January, the President signed into law legislation that authorized increases in pay and benefits for SEC employees to make them comparable to agencies that regulate banking, such as the Federal Deposit Insurance Corporation (FDIC). Despite the Enron scandal, which indicates the importance of and need for a strong, well-funded SEC, the budget does not provide funding for this pay parity provision. The SEC has argued that it suffers from high rates of employee turnover because higher salaries are available elsewhere, and that pay parity is needed for the agency to attract and retain high-quality personnel. CBO estimates that funding the pay parity provisions authorized by Congress would cost about \$70 million annually.

- ***Funding Cut for the Advanced Technology Program*** — The budget cuts funding for the Commerce Department’s Advanced Technology Program to \$108 million, \$76 million (41.3 percent) below the 2002 enacted level of \$184 million. The program provides assistance to U.S. businesses and joint research and development ventures to help them improve their competitive position. The goal of the program is to accelerate commercialization of technology that promises significant national economic benefits. Last year Congress rejected the Administration’s proposal to eliminate funding for this program.
  
- ***Dramatic Cuts to Manufacturing Extension Program*** — The budget reduces funding for the Commerce Department’s Manufacturing Extension Partnership to \$13 million, a cut of 87.8 percent below the 2002 enacted level of \$107 million. The program is a national network of manufacturing extension centers which enhance the competitiveness of U.S. small manufacturers by providing them with access to technologies and expertise.
  
- ***Cuts to Digital Divide Program*** — The budget eliminates funding for Technology Opportunities Program (TOP) grants of the National Telecommunications and Information Administration (NTIA). TOP grants to state and local agencies help to bridge the digital divide by building information infrastructure in underserved communities.
  
- ***Cuts to Rural Housing Programs*** — For three rural housing loan programs in the Department of Agriculture, the budget requests funding that will result in 2003 loan levels that are lower than for 2002. For Section 502 direct loans for single-family housing, the budget supports \$957 million in loans for 2003, \$123 million (11.4 percent) less than for 2002. For Section 502 guaranteed loans for single-family housing, the budget supports \$2.8 billion in loans for 2003, \$388 million (12.4 percent) less than for 2002. For Section 515 direct loans for rental housing, the budget supports \$60 million in loans for 2003, \$54 million (47.4 percent) less than in 2002.

## Function 400: Transportation

Function 400 is comprised mostly of the programs administered by the Department of Transportation (DOT), including programs for highways, mass transit, aviation, and maritime activities. The function also includes several small transportation-related agencies and the civilian aviation research program of the National Aeronautics and Space Administration (NASA).

### Budget Summary

For 2003, the President's budget provides \$54.6 billion in appropriated budgetary resources (budget authority plus obligation limitations).<sup>15</sup> This funding level is \$6.1 billion (10.0 percent) lower than the 2002 enacted level. This overall decrease for 2003 reflects a dramatic cut of \$8.6 billion in federal aid for highways combined with an increase of \$2.5 billion for other transportation programs. The steep drop in federal aid for highways is described in greater detail below.

### Budget Details

- **Highway Funding Cut Drastically** — The President's budget cuts 2003 federal-aid highway funding to \$23.2 billion, a cut of \$8.6 billion (27.0 percent) from the 2002 enacted level of \$31.8 billion. This dramatic cut in 2003 highway funding is consistent with a provision in the Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21) that links highway funding levels with actual and expected highway use tax collections. The cut results from lower-than-expected gas tax collections in 2001 and a downward revision in projected collections for 2003.<sup>16</sup>

Such a dramatic decline in federal aid could force states to abandon or postpone many highway projects and result in the loss of thousands of highway construction jobs while the nation is still suffering the effects of a recession. The President's budget makes no attempt to remedy this steep drop called for under the provisions of TEA-21.

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<sup>15</sup> Some DOT programs are funded with traditional appropriations. However, highway programs, most mass transit programs, and the Federal Aviation Administration's airport improvement grants are usually funded with mandatory contract authority. The Appropriations Committees constrain the use of this mandatory contract authority by setting obligation limitations. Outlays resulting from the obligation limitations are counted as discretionary outlays.

<sup>16</sup> The President's budget shows a \$9.2 billion (28.9 percent) cut from the 2002 enacted level. However, after the budget's release, the Treasury Department discovered that it had made a mathematical error when calculating the amount of tax revenue to credit to the highway trust fund for 2003. Because of this mistake, the cut to federal highway aid in the President's budget was \$600 million too big. Therefore, the Administration will submit an amendment to the budget that reduces the \$9.2 billion cut to \$8.6 billion.

- ***New Transportation Security Administration*** — The Aviation and Transportation Security Act, signed by the President last November, established a new Transportation Security Administration (TSA) in the Department of Transportation (DOT), which took over responsibility for aviation security from the Federal Aviation Administration. In order to help fund TSA's activities, the law authorizes a new passenger fee (capped at \$5 per one-way ticket) and security fees on air carriers. The President's budget reflects estimated collections of \$2.2 billion from these fees. These collections only partially cover the \$4.8 billion the President's budget provides for TSA. Recently, the DOT's Inspector General testified that the President's request would not be enough to enable TSA to meet its capital and operating costs for the year.
- ***Coast Guard*** — The President's budget provides \$7.1 billion for the Coast Guard, a \$1.6 billion increase from the 2002 enacted level. The budget claims that this is the largest increase in the Coast Guard's history. However, nearly half of this increase is for a \$736 million lump-sum payment to a new Coast Guard military retirement fund. This amount is in addition to the Administration's government-wide initiative to reflect the full accrual of retirement costs in agency budgets. Without this payment, the increase for 2003 is \$836 million (15.0 percent). Of this remaining amount, \$92 million is an increase for capital costs and most of the rest is for the increased cost of operations.
- ***Amtrak*** — For 2003, the budget provides \$521 million in capital funding for Amtrak, which is \$100 million less than the 2002 enacted level of \$621 million. The 2002 total includes \$100 million in supplemental appropriations for post-September 11 security work on Amtrak rail tunnels in New York City.

Amtrak announced recently that the President's request falls well short of what it will need to continue its current services. The rail service announced that it will ask Congress for \$1.2 billion in appropriations for basic needs to manage and operate its rail system in 2003, including \$840 million for capital investment, \$160 million for railroad retirement taxes, and \$200 million to support unprofitable long-distance train service. Amtrak also indicated that an appropriation below this level will require the rail service to eliminate unprofitable long-distance service as early as October 1, 2002.

- ***Maritime Administration*** — Like last year, the President's budget eliminates funding for new loan guarantees under the Maritime Guaranteed Loan (Title XI) Program. This program guarantees loans for purchases from the U.S. shipbuilding industry and for shipyard modernization. Last year, Congress ignored the President's request and provided \$37 million for the program. For 2003, the President's budget provides \$4 million, enough to cover only the cost of administering pre-existing guarantees.

## **Function 450: Community and Regional Development**

Federal support for community and regional development helps promote growth in economically distressed urban and rural communities and provide assistance to states and localities in times of crisis. Major agencies and programs included in this function are the Empowerment Zones, Community Development Block Grants, the Economic Development Administration, the Appalachian Regional Commission, rural development programs in the Department of Agriculture, the Bureau of Indian Affairs, the Federal Emergency Management Agency (FEMA), and the Small Business Administration's disaster loan program.

The President's budget includes \$14.7 billion for the Community and Regional Development function for 2003, a \$2.7 billion increase over the level needed, according to CBO, to maintain purchasing power at the 2002 level.<sup>17</sup> This increase stems from additional funding provided for FEMA in the President's budget. While the President's budget substantially increases FEMA funding for 2003, the budget significantly cuts other programs in this function. Following is a description of the FEMA increase as well as some of the cuts in the President's budget.

- ***Federal Emergency Management Agency (FEMA) Disaster Relief Increase***— FEMA aids state and local governments during times of emergency by providing resources and coordinating operations. The President's budget provides \$6.6 billion in appropriations for FEMA, a \$3.4 billion (106 percent) increase over the level needed, according to CBO, to maintain purchasing power at the 2002 level. This total includes \$3.6 billion for state and local terrorism preparedness initiatives, a \$3.2 billion increase for these programs over last year's enacted level. The additional funding for terrorism preparedness goes toward terrorism-related equipment and grants to train "first responders" to emergencies, who include firefighters, police, and emergency medical technicians.

The budget also includes the following reforms for FEMA's Flood Insurance Program: discontinuing subsidized insurance coverage for second homes and vacation properties; requiring mortgage borrowers to fully insure the replacement value of their properties; ending state taxation of flood insurance properties; and including costs of expected coastal erosion losses in premiums for policies issued in coastal areas. The budget also transfers FEMA's Emergency Food and Shelter program to the Department of Housing and Urban Development while transferring Office of Justice's counterterrorism program to FEMA from the Department of Justice. In addition, the budget replaces the Hazard Mitigation Grant Program, which issues funds for state and local planning and activities

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<sup>17</sup>Calculations of last year's level exclude all emergencies designated within the function. The function totals include \$79 million to cover all retirement pension and health costs for all federal employees beginning 2003, an accounting change that does not reflect any programmatic funding increase.

to reduce disaster losses on a formula basis, with a program that provides funds on a competitive basis.

- ***Community Development Block Grant (CDBG) Program Cut*** — Community Development Block Grants provide funds for programs and activities that promote economic development in low- and moderate-income communities. The President's budget provides \$4.7 billion for CDBGs, a \$379 million (7.0 percent) cut below the level needed, according to CBO, to maintain purchasing power at the 2002 level. The budget reduces grants to the top-earning one percent of eligible communities to fund development in Colonias, which are communities along the United States and Mexican border.
- ***Community Development Financial Institutions (CDFI) Fund Cut*** — The CDFI program provides grants, loans, and other assistance to promote investment in economically distressed areas. The budget provides \$68 million for CDFI, a \$13 million (16.0 percent) cut below the level needed, according to CBO, to maintain purchasing power at the 2002 level.
- ***Economic Development Administration Cut*** — Economic Development Assistance programs provide grants and other assistance to help alleviate unemployment and underemployment in economically distressed regions. The budget provides \$317 million for Economic Development Assistance programs, a \$24 million (7.0 percent) cut below the level needed, according to CBO, to maintain purchasing power at the 2002 level.
- ***Appalachian Regional Commission Cut*** — The Appalachian Regional Commission aids economic development in the Appalachian region. The budget provides \$66 million for the Appalachian Regional Commission, a \$6 million (8.0 percent) cut below the level needed, according to CBO, to maintain purchasing power at the 2002 level.
- ***Rural Community Advancement Cut*** — The Rural Community Advancement (RCA) program provides grants, loans, and loan guarantees to stimulate economic growth and build facilities in rural communities. The budget provides \$791 million for the Rural Community Advancement program, a \$7 million cut below the level needed, according to CBO, to maintain purchasing power at the 2002 level.
- ***Empowerment Zones*** — Empowerment Zones target funds to efforts to revitalize economically distressed urban areas and attract private investment. The budget includes no funding for urban or rural empowerment zones for 2003. Last year, urban empowerment zones received \$45 million in appropriated funds and rural empowerment zones received \$15 million in appropriated funds.

## **Function 500: Education, Training, Employment,**

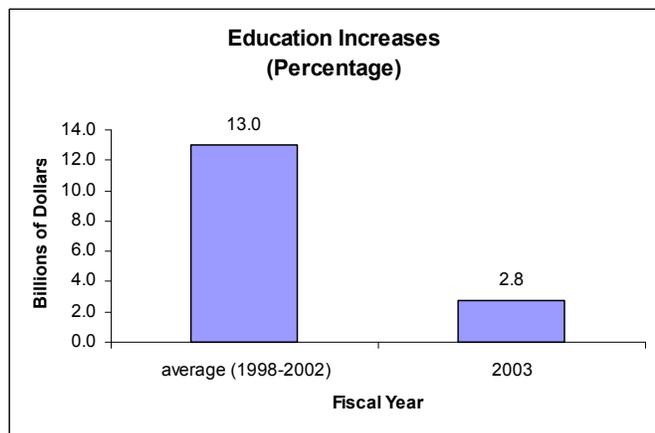
## Function 500: Education, Training, Employment, and Social Services

Function 500 includes funding for the entire Department of Education, social services programs within the Department of Health and Human Services, and employment and training programs within the Department of Labor. It also contains funding for the Library of Congress and independent research and art agencies such as the Corporation for Public Broadcasting, the Smithsonian Institution, the National Gallery of Art, the John F. Kennedy Center for the Performing Arts, the National Endowment for the Arts, and the National Endowment for the Humanities.

The President's budget for 2003 provides \$72.2 billion in discretionary funding for programs in this function, almost exactly the amount needed, according to CBO, to maintain purchasing power for these programs at the 2002 level. However, this freeze in purchasing power is misleading: it masks the severe decreases in certain programs, such as job training, that are offset by increases in a few high-profile programs, such as special education. The total funding includes \$151 million to cover all retirement pension and health costs for all federal employees beginning in 2003, which is an accounting change that does not reflect any programmatic funding increase.

### Education

The budget increases funding for the Department of Education by \$1.4 billion (2.8 percent) over the 2002 program level but only \$735 million (1.5 percent) above the level needed, according to CBO, to maintain purchasing power at the 2002 level. This hike pales in comparison with education increases in recent years: Congress raised education appropriations by 15.9 percent last year, and by an average of 13.0 percent over each of the past five years.



To fund increases in a few programs — primarily \$1.0 billion each to special education and education for the disadvantaged, \$549 million to maintain Pell Grants at their current levels, and \$100 million for reading — the budget cuts other education programs by \$1.8 billion from the 2002 enacted levels. Elementary and secondary education programs except for Title I bear the brunt of the cut, losing \$1.4 billion; the budget cuts higher education programs by \$241 million, and vocational and adult education programs by \$36 million.

- ***Eliminates \$1.3 Billion of 2002 Funding for Education, Health and Human Services, and Labor Programs*** — The budget assumes a rescission of \$1.3 billion of last year’s (2002) funding for Education, Health and Human Services, and Labor programs. Because last year many more eligible students than in the past applied for Pell Grants to attend postsecondary education, there is a \$1.3 billion shortfall for Pell Grants for 2002. Rather than provide this extra funding for 2003, the budget requires Congress to cut \$1.3 billion from Congressional earmarks funded by the 2002 Labor, Health and Human Services, and Education Appropriations Act, and to transfer that \$1.3 billion to the Pell Grant program instead.

- ***Education Tax Credits*** — The budget contains a new tax credit to offset the cost of attending a private or public school for students in failing public schools. This tax credit costs \$175 million in forgone taxes and new government spending in 2003, and \$3.7 billion over five years (2003-2007).

<b>Education Cuts</b> (Billions of Dollars)	
Elementary and Secondary	\$1.40
Adult and Vocational	0.04
Postsecondary Education	0.24
<u>Other</u>	<u>0.12</u>
<b>Total Cuts</b>	<b>\$1.76</b>

The budget creates a second tax credit beginning in 2004 to allow teachers to deduct certain out-of-pocket classroom expenses, costing \$16 million in 2004, and \$577 million over 2004-2007. The budget also expands the current tax credit for teachers who work in high-poverty schools for five years to allow qualifying science, math, and special education teachers to have up to \$17,000 of their student loans forgiven. This expansion costs \$45 million in 2003, and \$112 million over five years. Because tax credits are not appropriated funding, these costs do not appear in the total of appropriations for Function 500.

## **Elementary and Secondary Education**

- ***Cuts Funding for New Education Act*** — The President’s budget not only fails to provide all the funding authorized for the No Child Left Behind Act, last year’s bipartisan reauthorization of the nation’s main elementary and secondary education law, it actually cuts funding for these programs by \$90 million from the 2002 enacted level, to \$22.1 billion for 2003.
- ***Eliminates 28 Elementary and Secondary Education Programs*** — The budget cuts funding for elementary and secondary education programs other than Education for the Disadvantaged (Title I) by \$1.3 billion. This requires eliminating 28 programs and other Congressional priorities including Drop-Out Prevention, Rural Education, Civic Education, Close-Up Fellowships, and numerous technology training programs.

- **Highlights of Education Program Cuts** — The budget decreases funding in many areas, including the following: educational technology (cut \$134 million, or 15.7 percent, to \$722 million); Improving Teacher Quality programs (down \$105 million to \$3.0 billion); Safe and Drug-Free Schools (cut \$102 million, or 13.7 percent, to \$644 million); Even Start (cut \$50 million, or 20.0 percent, to \$200 million); and Fund for the Improvement of Education (cut by \$749 million, or 89.9 percent, to \$84 million).
- **Freezes Key Elementary and Secondary Education Programs** — The budget freezes funding for many education programs, including 21<sup>st</sup> Century Community Learning Centers after-school programs, comprehensive school reform, school choice and magnet schools, character education, and migrant education.
- **Modest Increase for Special Education** — The budget includes a smaller increase than Congress provided last year for the Individuals with Disabilities Education Act (IDEA) Part B grants to states, increasing them by only \$1.0 billion, for a total of \$8.5 billion for 2003. This funding puts the federal contribution at only 18 percent of the national average per pupil expenditure, still less than half the 40 percent “full funding” federal contribution ceiling authorized by IDEA.
- **Scattered Funding Increases** — The budget increases funding for only the following seven elementary and secondary education programs: Title I, increased \$1.0 billion from \$10.3 billion; Reading First, up \$100 million from \$900 million; \$100 million for a new program to help charter schools obtain facilities; \$50 million for a new program to foster public or private school choice; two programs to recruit new teachers, up \$6 million from \$53 million; and Indian Education, increased \$2 million to \$122 million.

<b>Education Increases Offset by \$1.8 Billion in Cuts (Billions of Dollars)</b>	
Title I	1.04
Special Education	1.02
Pell Grants	0.55
Reading	0.10
<u>Other</u>	<u>0.30</u>
<b>Total Increases</b>	<b>\$3.00</b>

## Postsecondary Education

- **No Increase in Maximum Pell Grant** — The budget freezes the Pell Grant maximum award at the 2002 level of \$4,000. However, because more eligible students are expected to apply, the budget provides another \$549 million for Pell Grants for 2003.
- **Freezes Campus-Based Postsecondary Assistance** — The budget freezes funding at the 2002 level for all the campus-based postsecondary education programs (Supplemental Educational Opportunity Grants, Work Study, and Perkins Loans).

- ***Decreases Postsecondary Student Assistance*** — The budget freezes funding at the 2002 level for all the programs that provide assistance to postsecondary students (such as TRIO and GEAR-UP) except for the two that it eliminates entirely (Thurgood Marshall Legal Educational Opportunity Program and B.J. Stupak Olympic Scholarships). The budget also eliminates demonstration projects to ensure quality education for students with disabilities and the Underground Railroad Program.

## Employment and Training

Despite some selected small increases, such as an increase of \$73 million (5.0 percent) for Job Corps, the budget cuts funding for employment and training programs by \$686 million (12.1 percent) from the 2002 enacted level of \$5.7 billion.

- ***Cuts Dislocated Workers*** — The budget cuts funding to help dislocated workers by \$166 million (10.7 percent) from the 2002 enacted level of \$1.5 billion.
- ***Decreases Adult Training*** — The budget also decreases state grant funding for employment and training for low-income adults by \$50 million from the 2002 level of \$950 million.
- ***Cuts Youth Training Activities*** — The budget cuts \$363 million for youth training services that prepare low-income youth for academic and employment success. The budget includes an increase of \$73 million for Job Corps, providing \$1.5 billion for 2003.

## Social Services

The budget provides \$11.6 billion for social services programs for 2003, an increase of \$473 million (4.3 percent) above the level needed, according to OMB, to maintain purchasing power at the 2002 level. This increase is primarily for national service and Head Start, while other programs are frozen at the 2002 level.

- ***No Increase for Social Services Block Grant (Title XX)*** — The budget freezes funding for the Social Services Block grant at the 2002 enacted level of \$1.7 billion. This grant provides states with broad discretion to use these funds for social services such as child care, child welfare, home-based services, employment services, adult protective services, prevention and intervention programs, and special services for the disabled.
- ***Freezes Services for Seniors*** — The budget provides \$1.3 billion for Administration on Aging programs, virtually the same as the 2002 level. The bulk of this funding is for nutrition and meal services.

- ***Cuts Community Services Programs by 13 Percent*** — The budget provides \$616 million for community services programs, \$98 million (13.3 percent) below the 2002 enacted level and \$113 million (15.0 percent) below the amount needed, according to CBO, to maintain purchasing power at the 2002 level.
- ***Freezes Head Start Enrollment*** — The budget provides \$6.7 billion for Head Start, an increase of \$130 million (2.0 percent). That is not enough to allow Head Start to offer services to any additional children.
- ***Increases National Service*** — The budget includes \$1.0 billion for the Corporation for National and Community Service, an increase of \$299 million (40.9 percent). This funding supports a new USA Freedom Corps, which includes \$118 million for a Citizen Corps to volunteer to “help fight terrorism on the home front,” as well as the Peace Corps, AmeriCorps, and Senior Corps.

## **Cultural Agencies**

- ***Cuts Smithsonian Construction and Repair*** — The budget provides \$93 million for Smithsonian repair and construction costs, which is \$5 million below a freeze at the 2002 level and \$7 million (7.0 percent) below the level needed, according to CBO, to maintain purchasing power at the 2002 level. The budget also notes that the Administration may transfer non-competitive funding from the Smithsonian’s astrophysics and environment programs to the National Science Foundation, pending a review by an independent panel.
- ***Freezes National Endowments*** — The budget freezes funding at \$1 million below the level needed, according to CBO, to maintain purchasing power at the 2002 level for both the National Endowment for the Arts (\$117 million) and the National Endowment for the Humanities (\$127 million).

## Function 550: Health

In Function 550 (Health), appropriated programs, also called discretionary, include most direct health care services programs. Other health programs in the Function fund anti-bioterrorism activities and national biomedical research, protect the health of the general population and workers in their places of employment, provide health services for under-served populations, and promote training for the health care workforce. For 2003, funding for the National Institutes of Health (NIH) represents over half (56 percent) of all discretionary funding. The major mandatory programs in this function are Medicaid, the State Children's Health Insurance Program (SCHIP), and Tricare-for-Life (health care for Medicare-eligible military retirees).

### Appropriated Programs

- **Overall Appropriated Increase** — For appropriated programs in Function 550 (Health), the President's budget provides \$48.8 billion in budget authority for 2003, an increase of \$1.4 billion (3.0 percent) over the amount CBO says is necessary to maintain purchasing power at the 2002 level. This increase includes \$382 million to cover all retirement pension and health costs for all federal employees beginning in 2003, and is an accounting change that does not reflect any programmatic funding increase.

For 2003, the budget increases discretionary funding by \$2.5 billion over the 2002 enacted level. Clearly this overall increase is insufficient to fund the major increases included for the National Institutes of Health (\$3.7 billion) and anti-bioterrorism activities (\$1.3 billion) without cutting funding for other programs.

### Mandatory Programs

- **Overall Mandatory Increase** — Over ten years (2003-2012), the budget increases mandatory spending by \$109.4 billion relative to current law. (Note: For this comparison, the OMB mandatory baseline is corrected to exclude proposed spending for health care for military retirees under age 65.)
- **Account Transfer** — In addition to the aforementioned accounting change for retirement and health costs for all federal employees, the budget also reflects the spending for the Tricare-for-Life program (health care for Medicare-eligible military retirees) in Function 550. Previously this spending was included in Function 050 (Defense). This additional spending is not related to ongoing programmatic increases, and should not be interpreted as increased spending on health.

## Medicaid

- □ ***Extend Transitional Medicaid Assistance (TMA)*** — The budget increases Medicaid spending by \$350 million in 2003 to extend TMA for one year only. This program provides health coverage for former welfare recipients as they enter the workforce and is an integral part of welfare reform. When Congress extends the current welfare law, it is likely to extend TMA for more than one year.
- ***Rebasing Prescription Drugs Lowers Costs*** — The budget decreases Medicaid spending by \$5.5 billion over five years (2003-2007), and \$17.6 billion over ten years (2003-2012) relative to current law by revising the base formula used to calculate the Medicaid drug rebate.
- ***Regulatory Revision in Upper Payment Limit (UPL) Cuts Payments*** — An additional reduction in Medicaid spending of \$11 billion over five years (2003-2007) occurs as a result of the Administration's recent adoption of rules further tightening the upper payment limit (UPL) for certain non-state government-owned hospitals. This regulatory action is not a result of 2003 budget proposals, and further legislative action is not required to implement the rule. Nevertheless, it does have the effect of lowering state Medicaid payments to those states with higher UPL plans or those seeking to have such plans approved.

## State Children's Health Insurance Program (SCHIP)

- ***State Children's Health Insurance Program (SCHIP)*** — The budget permits states to retain \$3.2 billion in expiring SCHIP funds until 2006. Without this change, unused SCHIP funds for 1998-2000 must be returned to the Treasury at the end of 2002 and 2003.

## Health Care for Military Retirees

- ***Health Care for All Military Retirees*** — In 2004, the budget extends Tricare-for-Life to all military retirees. This increases spending for military retirees by \$24.9 billion over four years (2004-2007) and by \$65.9 billion over nine (2004-2012).

## Health Programs Subject to Annual Appropriations

- ***Anti-Bioterrorism Funding*** — For the fight against bioterrorism, the budget includes \$4.3 billion for 2003, an increase of \$1.3 billion, 43.3 percent, over the 2002 enacted level. The Public Health and Social Services Emergency Fund (PHSSEF) receives \$2.3 billion of this amount and provides funding for state and local preparedness, pharmaceutical procurement, and federal medical and public health response. Several

agencies (e.g. Centers for Disease Control and Prevention) within the Department of Health and Human Services are responsible for responding to the medical and public health consequences of bioterrorism and receive funding for anti-terrorism activities directly or through transfers from the PHSSEF. For a broader discussion of homeland security funding, see *Homeland Security*.

- ***Doubling Funding for the National Institutes of Health (NIH)*** — For 2003, the budget increases NIH funding by \$3.7 billion (15.7 percent) over the 2002 enacted level. This increase is the final installment in the bipartisan commitment to double the NIH budget over five years (1999-2003). According to the Administration, about 40 percent of the 2003 increase is earmarked for bioterrorism prevention and treatment research. For 2003, NIH funding represents over half (56 percent) of the funding for appropriated health programs in this function.
- ***Freeze Ryan White AIDS Programs*** — For 2003, the budget freezes Ryan White AIDS programs at the 2002 level of \$1.9 billion. With the advent of effective therapies, the number of persons seeking AIDS Drug Assistance Program (ADAP) assistance has more than doubled since 1996. The budget's level funding of Ryan White programs, especially ADAP, comes at a time when many states are implementing program restrictions or eligibility limits because of budget shortfalls.

Last year, a Kaiser Family Foundation survey (March 29, 2001) of ADAPs showed that these programs are key in providing HIV-related drugs to under-insured and uninsured persons living with HIV/AIDS. Ryan White programs fill the gaps for many with HIV/AIDS who do not have insurance and cannot qualify for Medicaid.

- ***Freeze Title X Family Planning*** — The budget freezes Title X family planning programs at the 2002 level of \$266 million for 2003.
- ***Freeze Maternal and Child Health (MCH) Block Grant*** — For 2003, the budget freezes the MCH block grant at the 2002 enacted level of \$739 million. The MCH block grant supports federal and state partnerships to develop service systems to address the critical challenges in maternal and child health.
- ***Freeze Healthy Start*** — The budget freezes Healthy Start at the 2002 level of \$99 million for 2003. The Healthy Start program supports programs in targeted high-risk communities to reduce low birth weight, inadequate prenatal care, and other factors contributing to infant mortality.
- ***Cut Health Professions Training Programs*** — For 2003, the budget cuts health professions training by \$278 million, 71.6 percent, below the 2002 enacted level. Nursing programs are not included in the overall reduction.

- ***Eliminate Community Access Program (CAP)*** — The budget eliminates the community access program for 2003, a cut of \$105 million. CAP funds grants to coordinate health care services to the under-insured and uninsured offered by community providers such as public hospitals, community health centers, and disproportionate share hospitals.
- ***Eliminate State Planning Grants*** — The budget eliminates state planning grants for 2003, a cut of \$15 million. These grants are used by states to develop designs for providing access to health insurance coverage to all people in a state.
- ***Telehealth Activities Slashed*** — For 2003, the budget cuts telehealth activities by \$33 million, 84.6 percent, below the 2002 enacted level.
- ***Rural Health Activities Slashed*** — Rural health activities are cut by \$54 million, 41.9 percent, below the 2002 enacted level.
- ***Cut Children’s Hospital Graduate Medical Education (GME)*** — For 2003, the budget cuts pediatric GME by \$85 million, 29.8 percent, below the 2002 enacted level. Funding drops to \$200 million for 2003. These funds are currently used by children’s teaching hospitals to offset the higher costs of providing advanced training to pediatricians.
- ***National Health Service Corps (NHSC)*** — For 2003, the budget increases NHSC by \$44 million, 29.7 percent, over the 2002 enacted level. Through its scholarship and loan programs, the NHSC places physicians in medically under-served areas which often have a high rate of uninsured persons. NHSC physicians are often the mainstay of the health care workforce for institutions, such as community health centers and disproportionate share and public hospitals, that serve the under-insured or uninsured.
- ***Boost Funds for Community Health Centers*** — For 2003, the budget funds community health centers at \$1.5 billion, an increase of \$114 million, 8.5 percent, over the 2001 enacted level. These centers are one of many providers serving low-income and uninsured people. Community health centers often rely on the NHSC for physicians to provide care to their patients and work with the CAP providers to coordinate care for the uninsured.
- ***Substance Abuse and Mental Health Services Administration (SAMHSA)*** — The budget funds SAMHSA at \$3.2 billion for 2003, an increase of \$57 million over the 2002 enacted level. Mental health activities are frozen at the 2002 level of \$832 million. Substance abuse activities are funded at \$2.3 billion, a net increase of \$82 million. Substance abuse treatment programs are increased \$127 million, 6.3 percent, over the 2002 level. However, the prevention programs are cut \$45 million, 22.7 percent from the 2002 enacted level.

- ***Centers for Disease Control and Prevention (CDC)*** — For 2003, the budget funds CDC at a program level of \$5.8 billion, a cut of \$1.0 billion, 14.8 percent, below the 2002 enacted level. Most of the cut is accounted for by one-time purchases of smallpox vaccine and other pharmaceuticals in 2002 .
- ***Childhood Immunizations*** — For 2003, the budget provides \$1.5 billion. This includes \$631 million in funds appropriated to CDC, and \$823 million in Medicaid funds for the Vaccines for Children (VFC) programs. The goal for 2003 is to ensure that at least 90 percent of all two-year-olds receive a full series of vaccines.
- ***Food and Drug Administration (FDA)*** — FDA’s program level for 2002 is \$1.7 billion, an increase of \$123 million, 7.7 percent, over the 2002 program level. User fees of \$272 million are included for 2003.
- ***Food Safety and Inspection Service (FSIS)*** — For 2003, the budget provides FSIS with a program level of \$905 million, of which \$804 million is appropriated. This a 3.6 percent increase over the 2002 program level.
- ***Indian Health Service (IHS)*** — The budget funds IHS at a program level of \$3.5 billion for 2003, an increase of \$61 million over the 2002 level. Of this amount, \$2.9 billion is appropriated directly to IHS. The remaining program funds are derived from collections or mandatory transfers to the account. For 2003, the health services program level is \$3.1 billion, an increase of \$68 million over the 2002 level. The facilities program level is \$376 million, a decrease of \$7 million below the 2002 level.
- ***Occupational Safety and Health Administration (OSHA)*** — For 2003, the budget cuts OSHA funding by \$8.9 million below the 2002 enacted level. Some of this decrease, \$2 million, is an accounting change only and not related to program activities.
- ***Mine Safety and Health Administration (MSHA)*** — For 2003, the budget essentially freezes MSHA at the 2002 level of \$254 million.

## Health Care Tax Credits

- ***Tax Credits for the Uninsured*** — The budget creates a refundable income tax credit for health insurance costs for those who do not have public or employer-provided health plans. The credit provides a subsidy for a percentage of the health insurance premium, up to a maximum credit of \$1,000 per adult and \$500 per child, up to two children. A two-parent family with two children would be eligible for a maximum credit of \$3,000. The maximum subsidy percentage is 90 percent for low-income taxpayers and phases

down with income. The credit could also be used in state-sponsored private purchasing pools.

## Function 570: Medicare

Function 570 (Medicare) includes only the Medicare program. Appropriated funds are used to administer and monitor the Medicare program. Medicare benefits comprise almost all of the mandatory spending in this function.

### Appropriated Program

- ***Administration of Medicare*** — For 2003, the President's budget funds Medicare administrative activities at \$3.5 billion, a cut of \$17 million (2.6 percent) below the amount CBO says is required to maintain purchasing power at the 2002 level. Over ten years (2003-2012), the budget provides \$41.1 billion for this purpose. This is \$3.9 billion below the level required to maintain purchasing power over the same period, according to CBO.

### Medicare Trust Fund

- ***Denying the Surplus in the Medicare HI Trust Fund*** — The budget continues to deny that a Medicare HI Trust Fund surplus exists. Like last year, the budget explains Medicare financing in a manner that incorrectly portrays the use of general revenues as a deficit instead of a subsidy designed as a benefit to protect seniors from the high cost of health care services. Although the budget ignores the Medicare Trust Fund for rhetorical purposes, the budget uses virtually all of the surplus to finance priorities such as additional tax cuts. See *Broken Promises on Social Security, Medicare, and Debt* for a broader discussion of the Medicare Trust Fund.

### Low Medicare Growth Rate Shrinks Spending Painlessly

- ***Slow Medicare Growth Unexplained*** — The budget's projection of Medicare spending under current law over the next ten years (2003-2012) is surprisingly lower, by about ten percent, than CBO's projection for the same period. Over the next decade, OMB projects that Medicare costs are increasing more slowly even while private employers and insurers are experiencing an upsurge in health inflation. OMB also projects this slower growth over this period that includes the Baby Boomers becoming eligible for Medicare. OMB's growth rates appear to fly in the face of reality.

Regardless of the reasons why OMB used these low growth rates to project its Medicare spending over the next decade, the effect of the lower growth rate is clear. Using a slower growth rate results in a projection of Medicare spending that is significantly lower than it would be otherwise. In turn, the lower spending projection in Medicare reduces the overall amount of spending that the federal government appears to require. Thus, the

size of the deficit appears smaller than it would if OMB used more realistic growth rates to project Medicare spending over the next decade.

## Medicare Benefits

- ***Unspecified Medicare Reform and Inadequate Prescription Drug Coverage*** — The President's 2003 budget includes \$190.2 billion over ten years (2003-2012) to reform Medicare and provide immediate assistance to states providing prescription drug coverage to low-income seniors. Of the \$190.2 billion included in the budget, \$77.1 billion is for state-sponsored prescription drug programs. Last year's Republican budget resolution included \$300 billion for these purposes. Like the Administration's budget last year, this one does not outline the planned Medicare reforms and fails to provide a Medicare prescription drug benefit to all seniors.

The budget includes immediate funding in 2003 for the prescription drug assistance to the states. The funding for the undefined reform and modernization plan is not available until 2006.

## Provider Payments

- ***Increase in Payments to Medicare Managed Care (Medicare + Choice)*** — The budget increases Medicare spending an additional \$3.7 billion relative to current law over five years (2003-2007) for increased payments to some Medicare managed care plans. The budget increases payments to those Medicare managed care plans that received only minimum updates. This increase is a partial response to the recent recommendations of MedPAC (Congress' Medicare Advisory Commission) to increase Medicare + Choice payments. The budget also includes incentive payments to plans to join Medicare + Choice which result in increased spending of \$440 million over the same period.
- ***Budget Fails to Provide Relief to Physicians or Home Health Agencies*** — In addition to recommending increases in managed care payments, MedPAC made two other recommendations on provider payments. MedPAC recommended: 1) an increase in physician payments because the current formula (the sustainable growth rate) is flawed; and 2) the elimination of the scheduled 15 percent cut in payments for home health agencies required under current law. The budget is silent on both of these provider payment formulas, which stem from the Medicare revisions in the Balanced Budget Act of 1997 (BBA).
- ***Reductions in Graduate Medical Education (GME) Payments*** — The budget extends some expiring GME payment policies that would otherwise expire. Reported savings are

\$570 million over ten years (2003-2012). However, the policies achieving these cuts are not detailed.

- ***Expand Competitive Bidding for Durable Medical Equipment (DME)*** — The budget implements competitive bidding nationally for DME, which results in savings of \$5.1 billion over ten years (2003-2012). Currently competitive bidding for DME is limited to demonstration projects in Florida and Texas.

### **Other Medicare Revisions**

- ***Medicare Secondary Payer*** — The budget requires insurers and entities sponsoring group health plans to provide Medicare with information on those beneficiaries for whom Medicare is the secondary payer. This reporting requirement saves Medicare \$1.2 billion over ten years (2003-2012).

## **Function 600: Income Security**

Function 600 consists of a range of income security programs that provide cash or near-cash assistance (e.g., housing, food, and energy assistance) to low-income persons, and benefits to certain retirees, persons with disabilities, and the unemployed. Housing assistance programs account for the largest share of discretionary spending in this function. Major federal entitlement programs in this function include Unemployment Insurance, food stamps, Temporary Assistance to Needy Families (TANF), child care, and Supplemental Security Income (SSI). The function also includes spending associated with the refundable portions of the Earned Income Tax Credit (EITC) and Child Credit. Federal and other retirement and disability programs, which make up approximately one-third of funds in this function, are discussed in *Function 800 (General Government)*.

When Administration officials said the budget has no “pain,” they did not consider its impact on America’s most vulnerable citizens. The budget provides \$45.1 billion in discretionary funding for Function 600 for 2003, \$1.5 billion less than the amount necessary, according to CBO, to maintain purchasing power in these programs at the 2002 level.

For 2003, the budget provides \$271.1 billion for the mandatory programs of Function 600, an increase of just \$9 million above the level projected under current law (\$7.8 billion over five years and \$39.7 billion over ten years). This additional spending over ten years includes the following: \$7.4 billion for welfare and related family support programs; \$21.8 billion for an initiative to devolve responsibility for unemployment insurance administration financing to the states; and \$10.3 billion for the refundable portions of the proposal to extend the enacted tax cut through 2012. Total funding for 2003 for this function includes \$1.5 billion to cover retirement pension and health costs for all federal employees beginning in 2003, an accounting change that does not reflect any programmatic funding increase.

### **Welfare and Related Family Support Programs**

Most provisions of the landmark Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), often referred to as the Welfare Reform Act, will expire if not reauthorized in 2002. PRWORA replaced the former federal welfare entitlement program with flexible Temporary Assistance for Needy Families (TANF) block grants, increased child care funding, improved child support collection, reduced the number of children eligible for the SSI program, reduced funding for the Title XX Social Services Block Grant (SSBG), and terminated most legal immigrants’ access to food stamp and other benefits.

The Administration’s reauthorization proposals for TANF, food stamps, and child support increase mandatory spending in this function relative to current law by \$9 million in 2003 and \$7.4 billion over ten years. For 2003, the budget freezes spending at the 2002 enacted level for SSBG, and throughout the decade the budget freezes mandatory child care at the 2002 enacted

level. The budget also extends the Transitional Medicaid Assistance for families leaving welfare through 2003 only. See *Function 500 (Education, Training and Social Services)* for a discussion of SSBG and training programs. See *Function 550 (Health)* for information on Medicaid. See *Nutrition Assistance* in this section for a discussion of food stamps.

- ***Freezes Most Welfare Funding; Restores Programs the Administration let Expire in 2002*** — The budget freezes most funding for the Temporary Assistance for Needy Families (TANF) program at the 2002 enacted level of \$16.7 billion. The budget continues this freeze at the 2002 enacted levels through 2012. (The budget also continues high performance bonus funds for states at current-law levels of an average of \$200 million per year, provided in \$1.0 billion lump sums in both 2004 and 2009.) The budget converts the current \$100 million out-of-wedlock-birth reduction bonus into a new fund for research and technical assistance aimed at strengthening marriage and family formation. The budget allows the limitation on transfers to SSBG from TANF to fall from 10 percent to 4.25 percent in 2003.

The budget increases TANF spending relative to current law by \$46 million in 2003 and by \$3.1 billion over 10 years. This increase results from the restoration of two TANF components — Supplemental Grants (\$319 million annually) and the Contingency Fund for states experiencing economic hardships (up to \$2 billion) — that the Administration allowed to expire in its 2002 budget.

- ***Freezes Funding for Child Care*** — The budget freezes funding for the Child Care and Development Fund at the 2002 enacted level of \$4.8 billion, providing \$2.1 billion in discretionary funding for the Child Care and Development Block Grant (CCDBG) and \$2.7 billion for mandatory child care programs. This cuts funding for CCDBG by \$40 million compared with CBO's estimate of the amount necessary to maintain purchasing power at the 2002 level in 2003. The budget freezes mandatory funding at the 2002 enacted level through 2012, eroding purchasing power further in each year.
- ***Increases Child Support Distribution to Families, Reducing Spending in Related Programs*** — The budget includes \$66 million in savings in 2003 and \$798 million in additional spending over ten years relative to current law for changes in child support enforcement and distribution. Changes include measures encouraging states to increase the amount of child support collections passed on to families in the TANF system and the institution of a \$25 user fee for families outside the TANF system for whom the states make collections. The budget also assumes that the additional child support payments to families will generate \$612 million in savings relative to current law over ten years in related programs that would otherwise support those families (food stamps and Medicaid). Savings are credited to the program in which they are generated.

- ***Review Policy Reduces SSI and Medicaid Spending by \$903 Million*** — The budget establishes a standard for reviews and accuracy in SSI disability awards that parallels a policy within the Social Security Disability Insurance Program. This provision reduces 2003 - 2012 spending in the SSI and Medicaid programs by \$262 million and \$641 million, respectively. Medicaid savings are credited to *Function 550 (Health)*.
- ***Making Good on Old Promises to Foster Kids*** — The budget increases funding for the Safe and Stable Families Program by \$130 million and provides \$60 million in education and training vouchers for youths aging out of the foster care system. The Administration's 2002 budget originally promised new entitlement funding for these increases. However, in August 2001, the Administration instead requested that existing discretionary funding cover these initiatives. The 2003 budget provides this discretionary funding, at the same level requested last year.
- ***Cuts LIHEAP Formula Funding by 17.6 Percent*** — At a time of recession and high unemployment, the budget cuts funding for the Low-Income Heating and Energy Assistance Program (LIHEAP) program by \$300 million (15 percent) compared with the 2002 enacted level, providing \$1.4 billion in regular and \$300 million in contingent (emergency) funding. Because the entire \$300 million reduction comes out of regular LIHEAP funds (which fall from the 2002 enacted level of \$1.7 billion), the budget cuts these formula grants to states by 17.6 percent compared with the 2002 enacted level.

## Nutrition Assistance

- ***Special Supplemental Nutrition Assistance for Women, Infants and Children (WIC)*** — The budget provides \$4.8 billion for the Supplemental Nutrition Assistance for Women, Infants and Children program (WIC), an increase of \$364 million over the 2002 enacted level, to support nutrition assistance for a projected 7.8 million at-risk, low-income women, infants and children per month.
- ***Food Stamp Reauthorization*** — The budget increases spending in the food stamp program by \$29 million in 2003, \$990 million over five years and \$3.8 billion over ten years relative to current law. This spending includes \$4.2 billion over ten years to support the Administration's food stamp reauthorization proposals, including restoration of food stamp benefits for immigrants who have resided in the U.S. for five years or more, and \$402 million in savings resulting from legislative changes in the Child Support Enforcement program. (see *Increases Child Support Distribution...* in this section for additional information).
- ***Child Nutrition*** — The budget maintains spending for the child nutrition programs (including the school lunch, school breakfast, and Child and Adult Care Feeding Programs) at the current law level of \$10.8 billion in 2003.

## Unemployment Insurance (UI)

The budget includes several new spending proposals for the UI program as part of the Administration's economic security package and a long-term "reform" package that would radically reduce federal payroll taxes and devolve responsibility for financing unemployment benefit administration to the states, but does not appear to offer a federal response to serious issues of limited access to the program among low-income workers and the value of benefits.

- ***Short-Term Economic Security Proposals*** — The budget assumes enactment in 2002 of an economic stimulus package including 13 weeks of federally funded extended benefits for workers exhausting unemployment benefits and \$9.2 billion in advance "Reed Act" transfers from the federal Unemployment Trust Funds. All spending for the Economic Security package appears as one lump sum in Function 920.
- ***Long-Term "Reform" Cuts Federal Unemployment Taxes*** — The Administration's unemployment insurance proposal increases the deficit by \$1.0 billion in 2003 and \$18.0 billion over five years. The budget initiative cuts the federal unemployment payroll tax rate 25 percent in 2003 and 75 percent by 2007, reducing revenues by \$12.8 billion from 2003 to 2007. The budget also increases mandatory expenditures relative to current law beginning in 2005. Increased expenditures reach \$5.3 billion over five years and \$21.8 billion over ten. This reform package cuts taxes for employers, increases flexibility for states, and changes the criteria for states to qualify for the Extended Benefits program. It does not appear to offer a federal response to serious concerns regarding low reciprocity rates among the unemployed, low benefit levels, or the ability of low-income workers to qualify for assistance.

Federal taxes currently support federal and state unemployment administration and retraining services, the federal government's share of extended benefits for workers out of work more than 26 weeks, and loans to states that are unable to pay benefits because they have run out of funds. Reportedly, New York and Texas — both of which reduced their state unemployment payroll taxes supporting benefits during the late 1990s — will request nearly \$1 billion in loans from the federal government this month.

## Housing Assistance

According to the Administration, 4.9 million low-income families have worst-case housing needs, using over half of their incomes for rent or living in substandard conditions. The budget includes modest increases for a few homeownership initiatives and rental assistance vouchers, but freezes most programs at or near the 2002 enacted level, eroding their purchasing power for 2003. The Administration continues drastic cuts for a few programs first slashed in its 2002 budget. See the Table *Changes in Major Low-Income Housing Assistance Programs for 2003* for more detail on these program cuts.

- ***Modest Increases in Some Homeownership and Housing Assistance*** — The budget increases HOME Investment Partnerships Program funds to \$2.1 billion, \$203 million above the amount necessary to maintain purchasing power at the 2002 level. Within that total, the budget increases the set-aside for the Administration’s downpayment assistance program from \$50 million to \$200 million. The budget also provides \$204 million for 34,000 new Section 8 rental housing vouchers for 2003. Within that total, the budget sets aside up to \$40 million for 6,000 vouchers for non-elderly disabled people relocated from buildings designated for the elderly, up to \$6 million for 1,000 vouchers related to the Administration’s response to the Olmstead decision, and up to \$15 million for housing downpayment assistance.
- ***Funding Erodes for Most Programs*** — The budget freezes funding for most assisted housing programs at or near the 2002 enacted level. Programs cut below the amount necessary to maintain constant purchasing power at the 2002 level include: the Public Housing Operating Fund (\$31 million), Homeless Assistance Grants (\$14 million), and Housing for The Elderly and Disabled (\$20 million). See the Table *Changes in Major Low-Income Housing Assistance Programs for 2003* for more detail on these cuts.
- ***Section 8 Rental Assistance (Housing Certificate Fund)*** — The budget provides \$16.9 billion to renew Section 8 rental assistance for currently assisted families, \$260 million to provide 43,300 tenant-protection vouchers for families scheduled to lose other rental housing assistance for management reasons, \$196 million to administer project-based contracts, and \$204 million to provide 34,000 new rental vouchers. The Administration estimates the total cost of these efforts as \$17.5 billion, but projects that \$1.1 billion of previously appropriated funds will become available for reuse in 2003 and therefore provides only \$16.4 billion in new funding.

With the exception of new rental vouchers, this funding simply ensures that the three million currently assisted families continue to receive assistance. The budget estimates that, compared to the 2002 enacted level, an additional \$1.8 billion (\$1.1 billion excluding a one-time offset of \$640 million available in 2002) is necessary to renew expiring contracts for 2002.

- ***Cuts Funding for Critical Repairs to Public Housing, Again*** — Continuing the practice of cutting funds for critical repairs to public housing begun in its 2002 budget, the Administration cuts the Public Housing Capital Fund to \$2.4 billion, \$417 million (14.7 percent) below the 2002 enacted level. Public housing — home to 1.2 million families, over 40 percent of whom are elderly or disabled — faces a \$20 billion backlog of unmet repair needs and an additional \$2 billion in needs accruing each year. The budget includes legislation to begin a Public Housing Reinvestment and Finance Reform that would permit housing agencies to seek private sector financing for capital improvements while converting properties to project-based Section 8 vouchers.

### Changes in Major Low-Income Housing Assistance Programs for 2003

(Dollars in Millions)

	2003 Budget	Change from 2002 Enacted	Change from 2002 Inflation- Adjusted (CBO)
Total Housing Certificate Fund (HCF)	\$16,427	\$1,986	-\$615
New Section 8 Housing Vouchers (within HCF)	[204]	[100]	[204]
Public Housing Capital Fund	2,426	-417	-471
Public Housing Operating Fund	3,530	35	-31
Revitalization of Distressed Public Housing (HOPE VI)	574	0	-11
HOME Investment Partnerships Block Grant	2,084	238	203
Downpayment Assistance Initiative (within HOME)	[200]	[150]	[149]
Homeless Assistance	1,130	7	-14
Housing for Elderly & Disabled	1,024	0	-20
HOPWA	292	15	10
Native American Housing Assistance	647	-2	-14
Rural Housing & Economic Development	0	-25	-25
Rental Housing Assistance (rural)	712	11	-2

- ***Eliminates Rural Housing and Economic Development*** — The budget eliminates this \$25 million program, which encourages new and innovative approaches to serve the housing and economic development needs of rural populations through grants to local community-based organizations.

### Spending Associated with Tax Proposals

- ***Permanent Extension of the Enacted Tax Cut*** — The budget increases spending for the refundable portions of the child and earned income tax credits by \$10.3 billion compared with current law for costs associated with the permanent extension of the enacted tax cut. Virtually all of this spending occurs in 2012.

### Federal Employee Retirement

See *Function 950 (Undistributed Offsetting Receipts)* for discussion.

## Function 650: Social Security

Function 650 includes mandatory spending to pay Social Security retirement and disability benefits to 45 million people, and appropriated funding to administer these programs.

- ***No Benefit or Payroll Tax Changes*** — The President’s budget proposes no changes for Social Security benefits or payroll taxes.
- ***President’s Budget Makes Long-Term Reform Impossible*** — As pointed out by the President’s hand-picked Social Security privatization commission, the Administration’s intention to replace Social Security with private accounts invested in the stock market is inconsistent with the budget’s projection of deficits for years to come. Reforming Social Security for the long-term, whether or not it is based on privatization, requires resources from outside of Social Security, and the President’s budget squanders those resources.

See *Broken Promises on Social Security, Medicare, and Debt* for further discussion.

## Function 700: Veterans Benefits and Services

Function 700 includes the programs of the Department of Veterans Affairs (VA), such as veterans compensation and pensions, education and rehabilitation benefits, medical care, and housing programs.

For 2003, the President's budget provides \$26.5 billion for appropriated veterans programs, \$891 million of which is to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for employees. This increase reflects only this accounting change and does not represent a programmatic increase. See *Appropriated Programs* for further discussion. The amount provided by the President's budget is \$802 million more than needed, according to CBO, to maintain purchasing power at the 2002 level. Over the ten-year period (2003-2012) however, the President's budget cuts appropriated programs for veterans by \$6.4 billion compared with that level.

- ***Medical Care and Hospital Services*** — The President's budget includes \$24.5 billion for 2003 for veterans medical care and hospital services, including \$1.1 billion in medical collections. This represents an increase of \$672 million over the amount OMB estimates is needed to maintain purchasing power at the 2002 level. The budget includes \$316 million in "management efficiencies" to offset the overall cost of health care, in effect compelling the VA to pay for its own increase.
- ***\$1,500 Deductible for Priority Level 7 Veterans*** — The budget provides that Priority 7 (higher income, non-service-connected) veterans pay for a greater portion of their health care than in the past. Under the proposal, veterans pay up to a \$1,500 deductible at a rate of 45 percent of VA's reasonable charges. Pharmacy co-payments continue to be assessed as the \$1,500 deductible is paid. Normal inpatient and outpatient co-payment will start after the deductible is met. VA estimates the proposal will result in \$260 million more in collections and \$885 million in reduced costs to the government. Should collections not meet this estimate or costs not fall as predicted, VA will be forced cut services or find additional resources.
- ***Eliminate Department of Labor Program*** — The budget eliminates programs from the Department of Labor's Veterans Employment and Training Service and provides \$177 million for competitive grants. Administrative costs for the program are estimated at \$20 million.
- ***National Cemetery Administration*** — The budget provides \$138 million for the National Cemetery Administration, \$17 million above the 2002 enacted level.
- ***Mandatory Savings*** — The President's budget extends the authority to verify with the IRS the income of beneficiaries in means-tested programs. This proposal saves \$6 million per year beginning in 2004, totaling \$54 million over the ten-year period (2003-2012).

## Function 750: Administration of Justice

The Administration of Justice function consists of federal law enforcement programs, litigation and judicial activities, correctional operations, and state and local justice assistance. Agencies that administer programs within this function include the following: the Federal Bureau of Investigation (FBI); the Drug Enforcement Administration (DEA); the Immigration and Naturalization Service (INS); the United States Customs Service; the Bureau of Alcohol, Tobacco, and Firearms (ATF); the United States Attorneys; legal divisions within the Department of Justice; the Legal Services Corporation; the Federal Judiciary; and the Federal Bureau of Prisons.

The President's budget provides \$38.2 billion for the Administration of Justice function for 2003, a \$200 million increase over the level needed, according to CBO, to maintain purchasing power. This total includes \$831 million to cover all retirement pension and health costs for all federal employees beginning in 2003, and is an accounting change that does not reflect any programmatic funding increase. While the budget provides increases for some federal law enforcement programs in this function, specifically those programs tied to Homeland Security, it significantly cuts state and local law enforcement programs.

- ***Community Oriented Policing Services (COPS) Increases*** — The Community Oriented Policing Services has in prior years provided grants and other assistance to help communities hire police officers and improve law enforcement technologies. The budget eliminates traditional grants to hire and retrain new police officers in communities and schools, funded at \$330 million for 2002. The COPS budget includes a new Justice Assistance Grant Program funded at \$800 million for 2003 to replace law enforcement grants eliminated in the state and local law enforcement grant programs. The Justice Assistance Grant Program includes funds to support state and local law enforcement, prosecution, prevention, and corrections programs, and a \$60 million earmark for the Boys and Girls Club. Overall, including the new Justice Assistance Grant Program, the President's budget includes \$1.4 billion for the COPS program, a \$300 million increase above the level needed to maintain purchasing power at the 2002 level.
- ***Federal Law Enforcement Agency Increases*** — The budget includes increases for federal law enforcement programs compared to last year purchasing power level. The budget includes the following totals for salaries and expenses for various federal law enforcement programs: \$3.8 billion for the FBI, a \$500 million increase above the 2002 purchasing power level; \$2.6 billion for the United States Customs Service, a \$400 million increase over the 2002 purchasing power level; \$913 million for the ATF, a \$60 million increase over the 2002 purchasing power level; \$1.6 billion for the DEA, a \$50 million increase over the 2002 purchasing power level; and \$1.0 billion for the United States Secret Service, a \$40 million increase over the 2002 purchasing power level.

The budget ties many of the increases for federal law enforcement programs to homeland security activities and coordination. The budget directs \$2.0 billion toward counterterrorism efforts among the federal law enforcement agencies. The budget also includes initiatives to promote intelligence gathering among the departments, detect and prevent cybercrime attacks, enhance border patrol capabilities, and improve technological capabilities.

- ***Immigration Services and Border Patrol Increases*** — The budget provides \$4.1 billion for the Department of Justice’s Immigration and Naturalization Service (INS), a \$500 million increase over the level needed, according to CBO, to maintain the 2002 purchasing power level. The budget lists border security as a top priority for INS for 2003. The border security initiatives include implementing systems to track the arrivals and departures of non-U.S. citizens, securing equipment to monitor illegal entries in isolated areas, and integrating information systems to ensure comprehensive border enforcement information. In regard to immigration applicants, the budget includes a plan to achieve a six-month average processing goal for all applications.
- ***State and Local Law Enforcement Grant Cuts*** — State and Local Law Enforcement Assistance Grants support programs and activities that center on combating crime. The budget, while slightly increasing funding for federal law enforcement programs, substantially cuts state and local justice assistance. The President’s budget provides \$752 million for state and local law enforcement assistance, a \$1.7 billion (69.0 percent) cut below the level needed to maintain purchasing power at the 2002 level. The budget eliminates state and local law enforcement programs such as the State Criminal Alien Assistance Program, Edward Byrne formula and discretionary grants, and Local Law Enforcement Block Grants. The budget cuts and merges programs such as the Violence Against Women Act Grants, Juvenile Incentive Block Grants, drug courts, and residential substance abuse treatment into a new Justice Assistance Grant Program.
- ***Juvenile Justice Programs Cut*** — Juvenile justice programs provide grants and other assistance for states and localities to help combat juvenile delinquency. The President’s budget provides \$251 million for juvenile justice assistance, a \$54 million (18.0 percent) cut below the level needed to maintain purchasing power at the 2002 level.
- ***Civil Rights Enforcement*** — The budget provides \$324 million for the Equal Employment Opportunity Commission (EEOC), a \$1 million increase over the 2002 purchasing power level. It provides \$46 million for the Fair Housing Activities, a \$1 million cut below the 2002 purchasing power level. The budget provides \$89 million for the Department of Education’s Office for Civil Rights, a \$5 million increase above the purchasing power level. The budget maintains the Commission on Civil Rights at the 2002 purchasing power level of \$9 million.

- ***Legal Services Corporation Cut*** — The Legal Services Corporation provides free legal assistance for people living in poverty. The President’s budget provides \$329 million for the Legal Services Corporation, a \$6 million cut below the level needed to maintain purchasing power at the 2002 level.
- ***Election Reform Grants*** — The President’s budget includes \$400 million for a matching grant program to help state and local governments improve voting technologies and increase voter education and poll worker training.
- ***Correctional Activities Cut*** — The budget provides \$4.6 billion for the federal prison system, a \$200 million cut below the 2002 purchasing power level. The budget lists alternatives to prison construction, such as purchasing private facilities, as its priority.
- ***United States Attorneys Increase*** — The budget provides \$1.6 billion for United States Attorneys for 2003, a \$139 million increase over the 2002 purchasing power level.
- ***Office of Justice Programs*** — The Office of Justice programs coordinate and manage policies and activities for the Bureau of Justice Assistance, Bureau of Justice Statistics, National Institute of Justice, Office of Juvenile Justice and Delinquency Prevention, and the Office for Victims of Crime. The budget provides \$216 million for Office of Justice programs, a \$219 million (50 percent) decrease below the 2002 purchasing power level. This decrease stems from the transfer of the department’s counterterrorism program under the Office of Domestic Preparedness to the Federal Emergency Management Agency.

## Function 800: General Government

This function includes the activities of the White House and the Executive Office of the President, the legislative branch, and programs designed to carry out the legislative and administrative responsibilities of the federal government, including personnel management, fiscal operations, and property control.

The President's budget provides \$16.3 billion for the general government, \$259 billion below the level needed, according to CBO, to maintain constant purchasing power at the 2002 level. The budget cuts funding by \$11.5 billion over the ten-year period (2003-2012). The 2003 total includes \$649 million to cover all retirement pension and health costs for all federal employees beginning in 2003, and is an accounting change that does not reflect any programmatic funding increase.

- **Legislative Branch** — The budget includes \$3.0 billion, \$98 million above the level needed to maintain constant purchasing power, for the Legislative Branch. The funding is for the operations of the House and Senate as well as support agencies such as the General Accounting Office, the Library of Congress, and the Congressional Budget Office.
- **Executive Office of the President** — The budget provides \$337 million for the Executive Office of the President (EXOP), which includes the White House and supporting agencies such as the Office of Management and Budget, National Security Council, and Council of Economic Advisors. The budget also includes \$523 million for the Office of National Drug Control Policy, which provides Executive branch support for drug policy development and coordinates drug control programs within fifty federal agencies and departments.
- **Internal Revenue Service (IRS)** — The budget includes \$10.4 billion for the Internal Revenue Service.
- **General Services Administration (GSA)** — The budget includes \$551 million for the GSA, primarily for the construction and renovation of federal buildings. This account also funds the Office of Government-wide Policy, the Office of Citizen Services, and the Office of Inspector General. The GSA is the central provider of supplies, general administrative services, telecommunication services, and office space to federal agencies.
- **District of Columbia** — The budget includes \$191 million for the District of Columbia's criminal justice system, which was assumed as a federal responsibility under the D.C. Revitalization Act. The budget also includes \$464 million in mandatory funding for federal benefit payments for retired D.C. law enforcement officers, firefighters, and teachers.

- ***Payment to Alaska*** — The budget includes \$1.2 billion in mandatory spending for payments to Alaska for drilling in the Arctic National Wildlife Refuge. See *Function 950 (Undistributed Offsetting Receipts)* and *Function 300 (Natural Resources)* for further discussion.

## Function 920: Allowances

This function includes a \$1.3 supplemental appropriation, a spectrum relocation fund, an economic security plan, and funding for adjustments to the legislative and judicial branches' requests.

- ***Supplemental Appropriation*** — The President's budget includes an unspecified offset of \$1.3 billion of 2002 appropriations to provide an additional \$1.3 billion for Pell Grants. See *Function 500 (Education and Training)* for further details. According to the budget appendix, the Administration will provide Congress with a listing of programs funded by the 2002 Labor, Health and Human Services, and Education Appropriations bill that the Administration did not request. The Administration expects that Congress will select \$1.3 billion of programs to cut from the list.
- ***Adjustments to the Legislative and Judicial Branches' Requests*** — The budget includes cuts of \$400 million for 2003 and \$4.4 billion over the ten-year period (2003-2012) from adjustments to the legislative and judicial branch accounts for excessive funding requests. Each year, these branches make a request to OMB to cover their funding needs. OMB, in turn, adjusts the overall funding level to better reflect the historical funding levels for these branches of government. However, these reductions are reflected in this function rather than in the budget functions that contain the judicial and legislative branches to maintain comity among the three branches of government.
- ***Spectrum Relocation Fund*** — Some portions of the spectrum currently occupied by federal agencies have been reallocated for auction to commercial users. To expedite the federal agencies' relocation from this spectrum, the budget establishes a new fund. Auction receipts sufficient to cover agency relocation costs will be paid into the fund, and Federal agencies' relocation costs will then be paid out of the fund. The fund will cost \$715 million in mandatory spending over the next ten years.
- ***Economic Security Plan*** — The budget includes an economic stimulus plan that costs \$36.5 billion over three years (2002-2004). The discussion of expenditures associated with this refundable tax credit appear in the *Revenues* section of this analysis.

## Function 950: Undistributed Offsetting Receipts

This function comprises major offsetting receipt items that would distort the funding levels of other functional categories if they were distributed to them. This function currently includes three major items: rents and royalties from the Outer Continental Shelf (OCS); the receipt of agency payments for the employer share of federal employee retirement benefits; and other offsetting receipts, such as those obtained from broadcast spectrum auctions by the Federal Communications Commission (FCC).

Offsetting receipts are recorded as “negative outlays” either because they represent voluntary payments to the government in return for goods or services (e.g., OCS royalties and spectrum receipts) or because they represent the receipt by one government agency of a payment made by another.

For 2003, the budget assumes offsetting receipts of \$74.1 billion. Over the ten-year period (2003-2012), the budget assumes offsetting receipts of \$1.0 trillion.

- ***Federal Employee Retirement System*** — For 2003, federal agencies will pay \$61.3 billion to the federal employee retirement funds (the Civil Service Retirement System, Military Retirement System, and Federal Employees Retirement System). Employers also make payments to the Medicare Health Insurance Trust Fund and the Social Security Trust Funds on behalf of federal employees. As employees’ pay increases, agencies are required to increase their payments to these funds.
- ***Federal Employees’ Pay Raise*** — The budget provides increases in federal civilian pay rates of 2.6 percent in January 2003. The President’s budget rejects pay parity between military and civilian employees, pegging the 2003 pay hike for the civil service 1.5 percent below that recommended for the military.
- ***Accrual Accounting for Federal Employees*** — The budget shows a \$9.0 billion increase in discretionary funding that does not reflect any programmatic increases. This \$9.0 billion covers the budget’s proposal to show up front (through accrual accounting, already used for federal credit programs) all retirement pension and health costs for all federal employees beginning in 2003. Under current federal accounting procedures, these retirement costs are future mandatory payments and do not show up in agency costs. The budget changes this practice so that each agency shows these retirement costs as current discretionary costs, therefore increasing the need for discretionary appropriations by almost \$9 billion for 2003 to cover these payments.
- ***Arctic National Wildlife Refuge Lease Receipts*** — The budget assumes the opening of the Arctic National Wildlife Refuge (ANWR) for oil drilling to supplement the funding for renewable and related energy research. The budget assumes leasing begins in 2004,

generating \$3.2 billion in receipts, with \$1.2 billion to be spent on alternative energy programs over the following seven years. See *Function 270 (Energy)* and *Function 300 (Natural Resources and Environment)* for further details.

**Receipts from Arctic National Wildlife Refuge (ANWR) Leases  
(In billions of dollars)**

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>10-yr.total</u>
...	-2.4	...	-0.2	...	-0.1	...	...	...	-0.5	-3.2

- ***Spectrum Auctions and Fees*** — The President’s budget does not propose any new spectrum auctions, but it does assume a shift in the statutory deadline for beginning auction dates from 2000 to 2004 for spectrum currently assigned to television channels 60-69, and from 2002 to 2006 for spectrum assigned to television channels 52-59. The budget also assumes expedited clearing of channels 60-69. The Administration estimates that the effect of this legislation will be to increase auction receipts by \$6.7 billion over the next 10 years.

The budget establishes a \$500 million annual lease fee on the use of analog spectrum by commercial broadcasters beginning in 2007. Individual broadcasters will be exempt from the fee upon returning their analog spectrum licenses to the Federal Communications Commission (FCC) (and thus completing their transition from analog to digital broadcasting). A related proposal that was made in last year’s Administration budget but not adopted would have imposed a fee for use of analog spectrum beginning in 2002. This budget differs in that it does not impose the fee until 2007, after the December 31, 2006, deadline for broadcasters to return their analog channels to the FCC. The fee is expected to generate \$2.7 billion over the next ten years.

**Receipts From Spectrum Auctions and Fees  
(In billions of dollars)**

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>10-yr.total</u>
4.1	-3.4	-2.7	-4.7	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4	-9.4

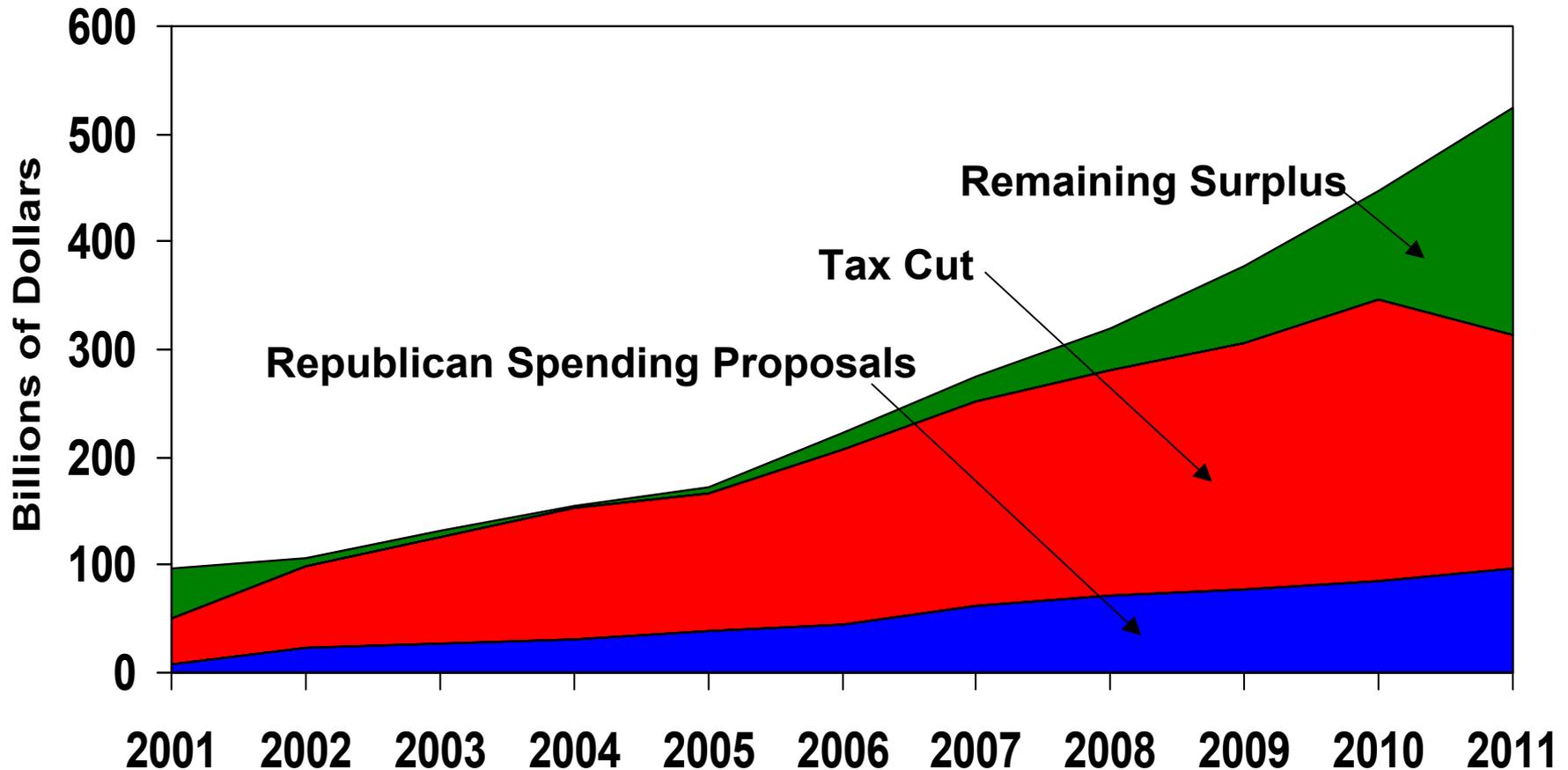
# **The President's FY 2003 Budget Charts and Graphs**

**House Budget Committee  
Democratic Staff  
February 8, 2002**

“Tax relief is central to my plan to encourage economic growth, and we can proceed with tax relief without fear of budget deficits, even if the economy softens. Projections for the surplus in my budget are cautious and conservative. They already assume an economic slowdown in the year 2001.”

President Bush  
Western Michigan University  
March 27, 2001

# Last Year's Republican Budget Left No Margin for Error



April 2001 Projection of Non-Medicare, Non-Social Security Surplus;  
Tax and Spending Proposals in Last Year's Republican Budget Resolution

# The 10-Year Unified Budget Surplus

Trillions of Dollars

	<b>2002-2011</b>	<b>2003-2012</b>
April 2001	5.637	N.A.
August 2001	3.113	N.A.
February 2002	0.661	1.002

Source: Office of Management and Budget

# The 10-Year Non-Social Security Surplus

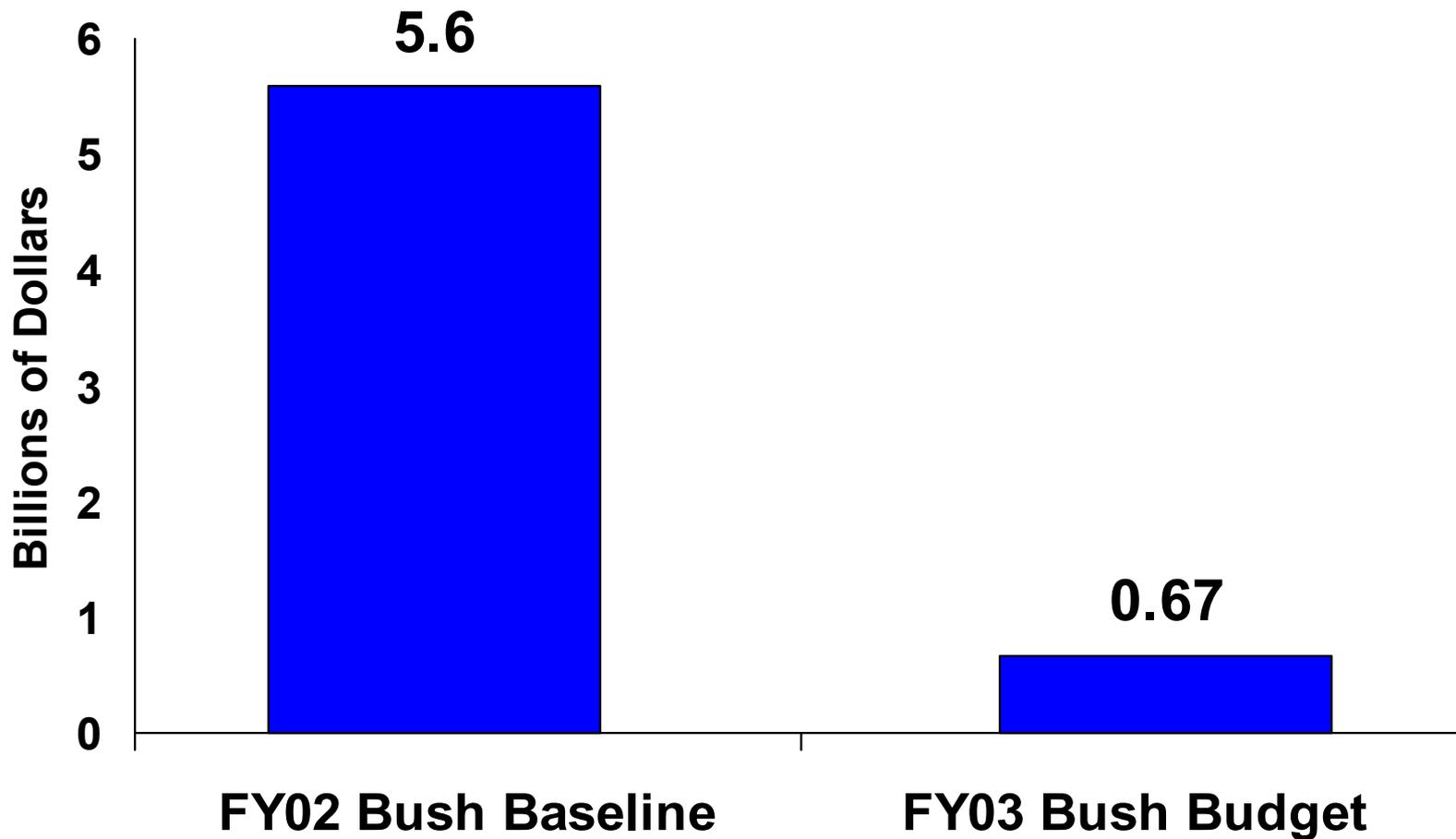
Trillions of Dollars

	<b>2002-2011</b>	<b>2003-2012</b>
April 2001	3.046	N.A.
August 2001	0.575	N.A.
February 2002	-1.650	-1.464

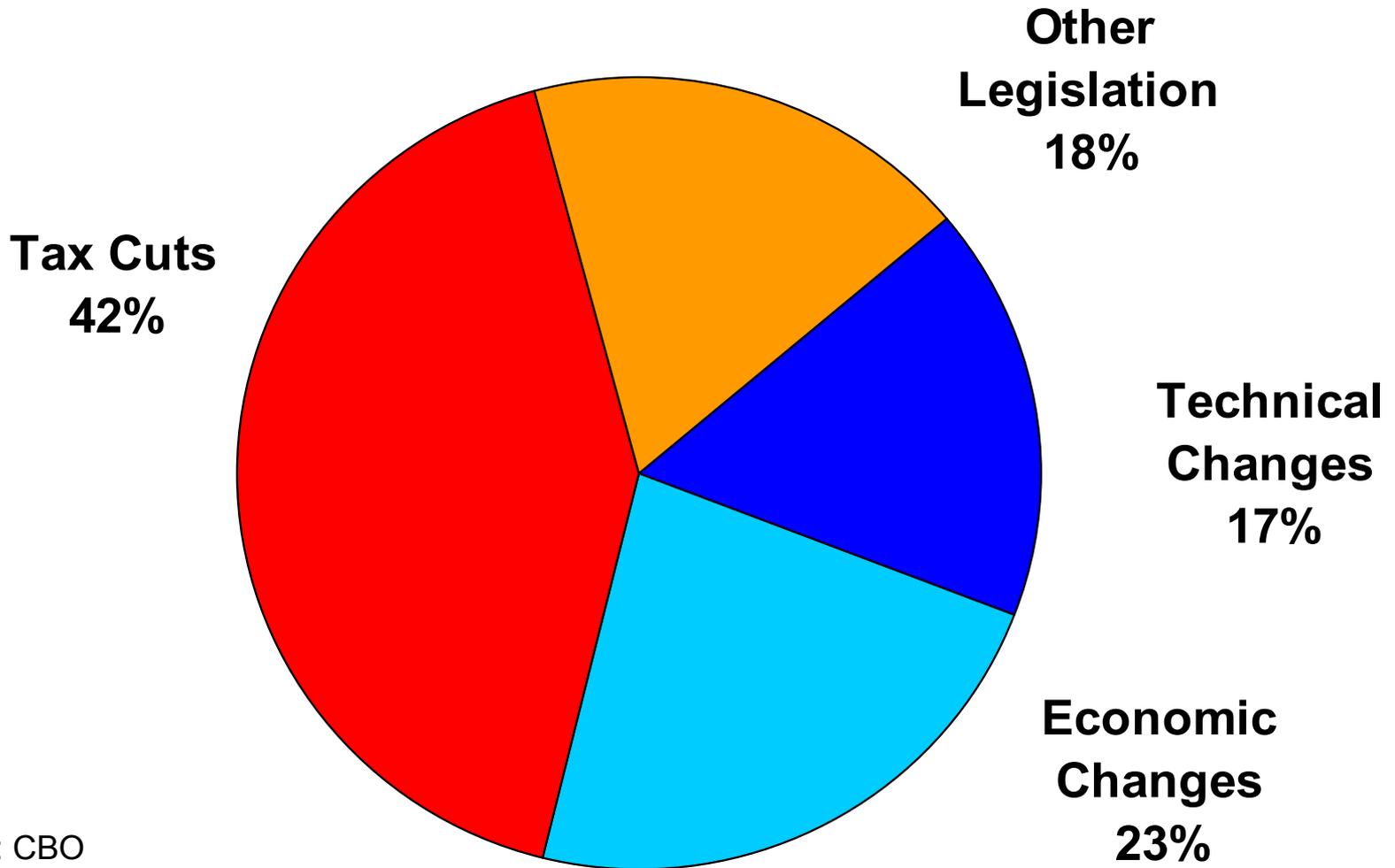
Source: Office of Management and Budget

# Surplus Declines by \$5 Trillion in One Year

Change in Unified Surplus, 2002-2011



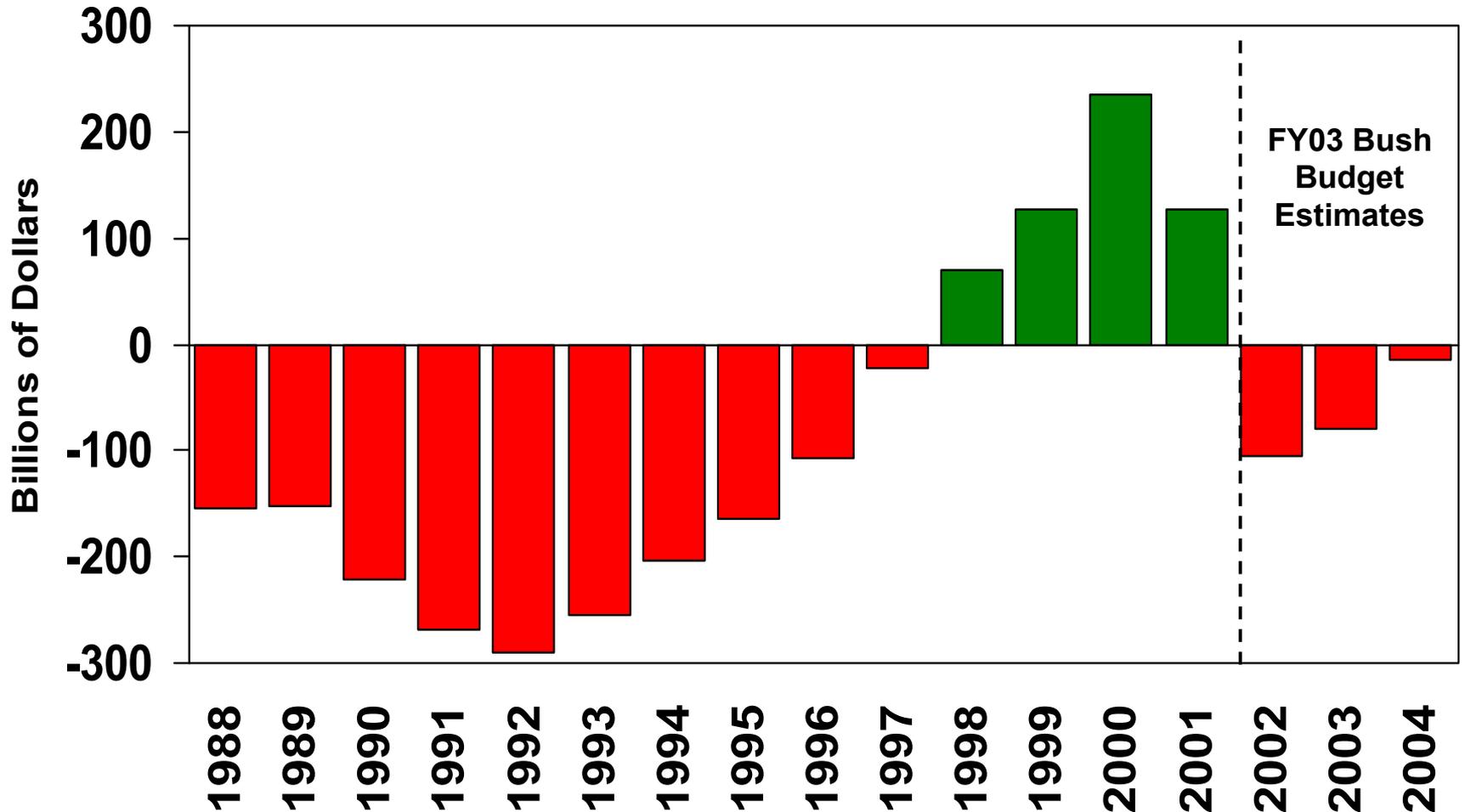
# Changes in the Total Budget Surplus, FY 2002-2011



Source: CBO

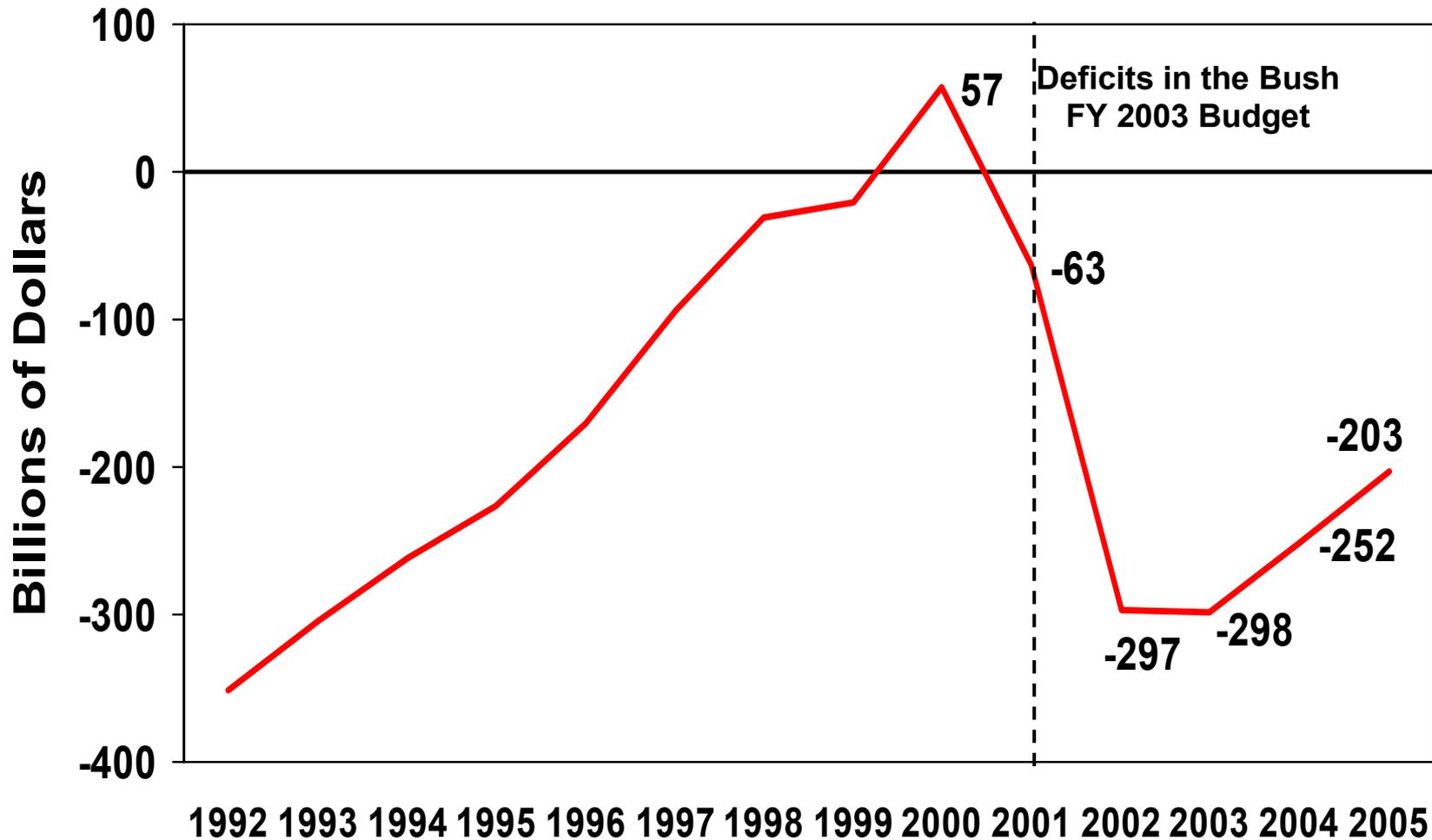
# Return to an Era of Deficits

Unified Surplus/Deficit, FY 1988-2004



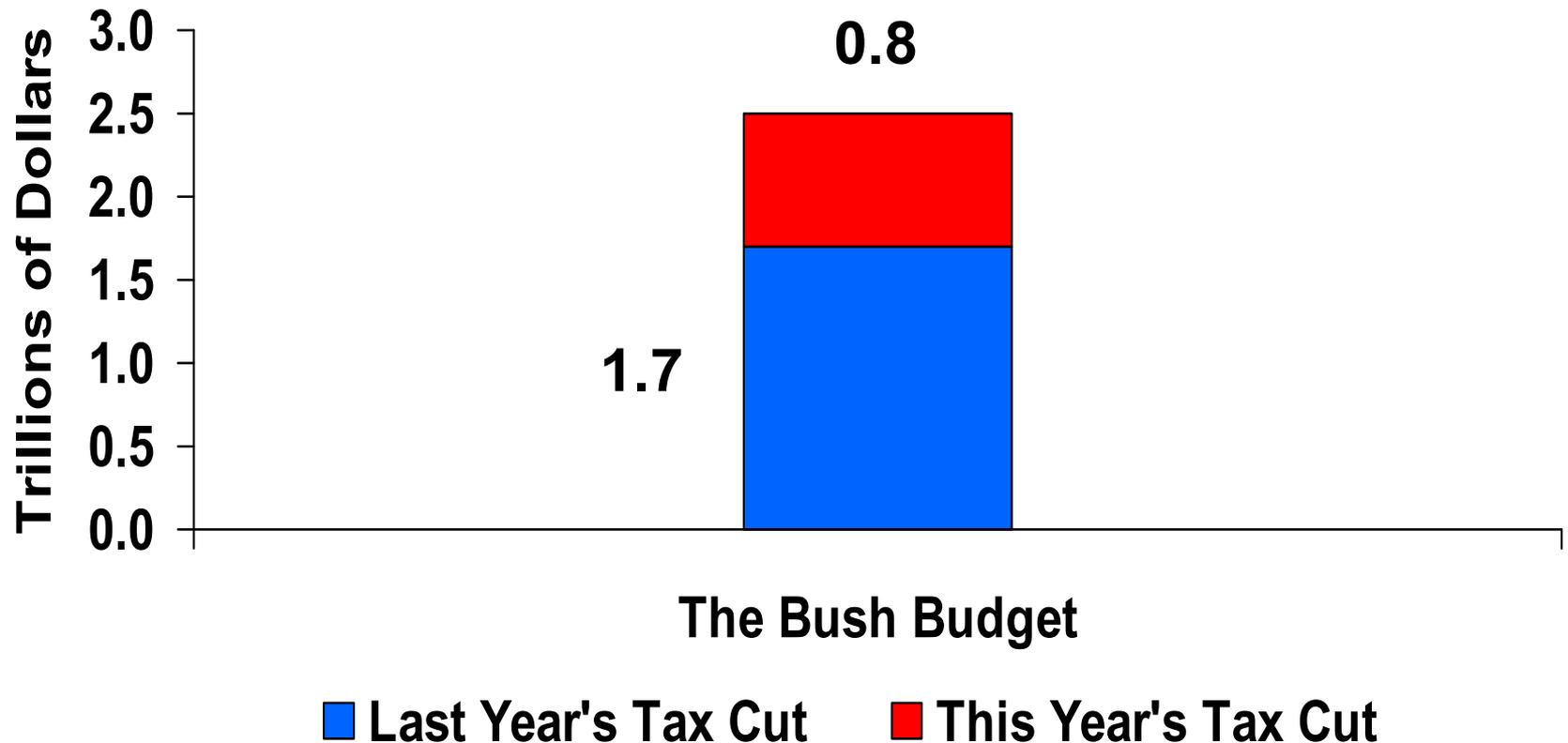
# A Return to an Era of Deficits

## Deficits without Social Security or Medicare



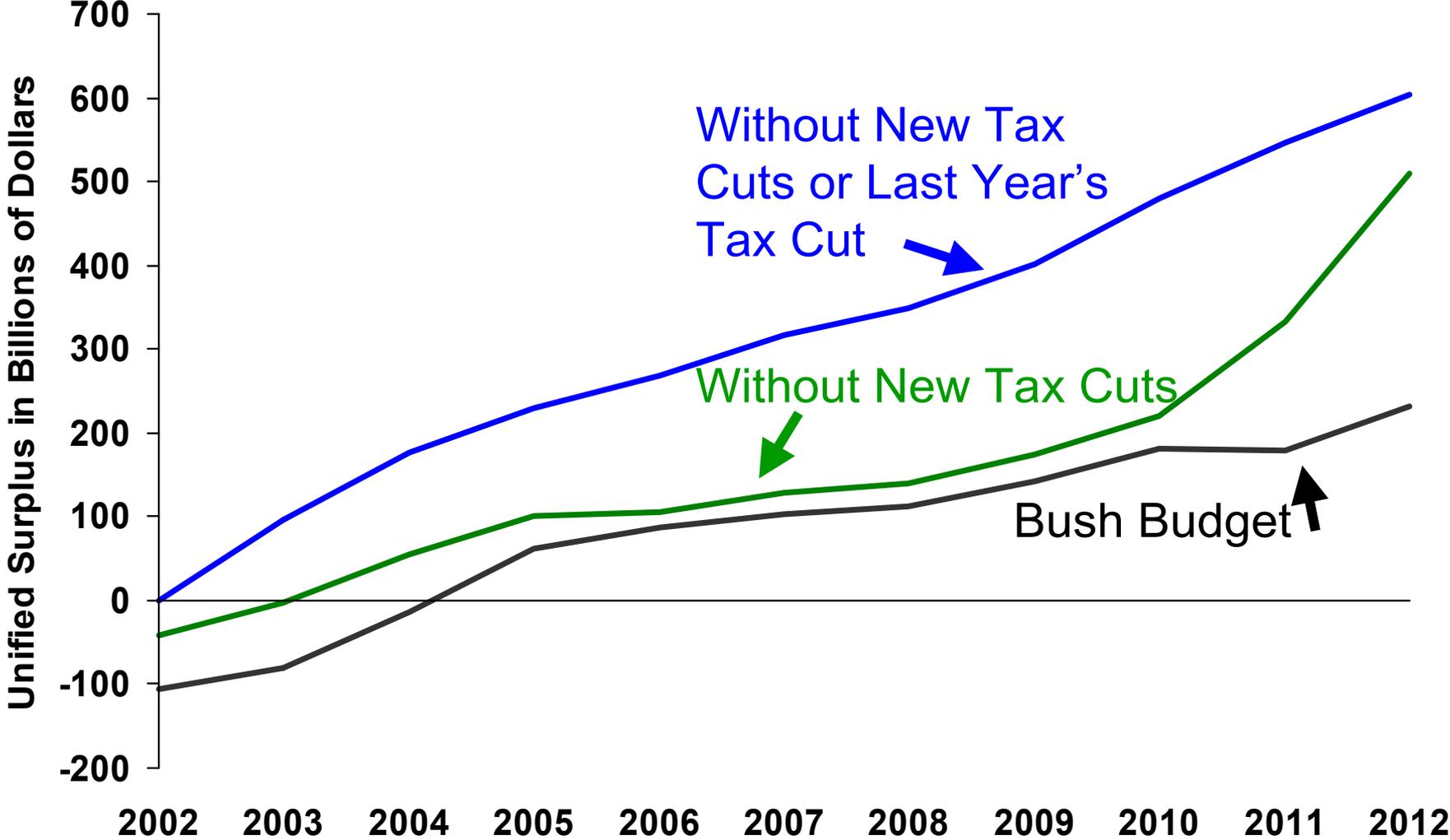
# The Bush Budget Solution to Deficit: More Tax Cuts

Ten-Year Cost of Tax Cuts\*



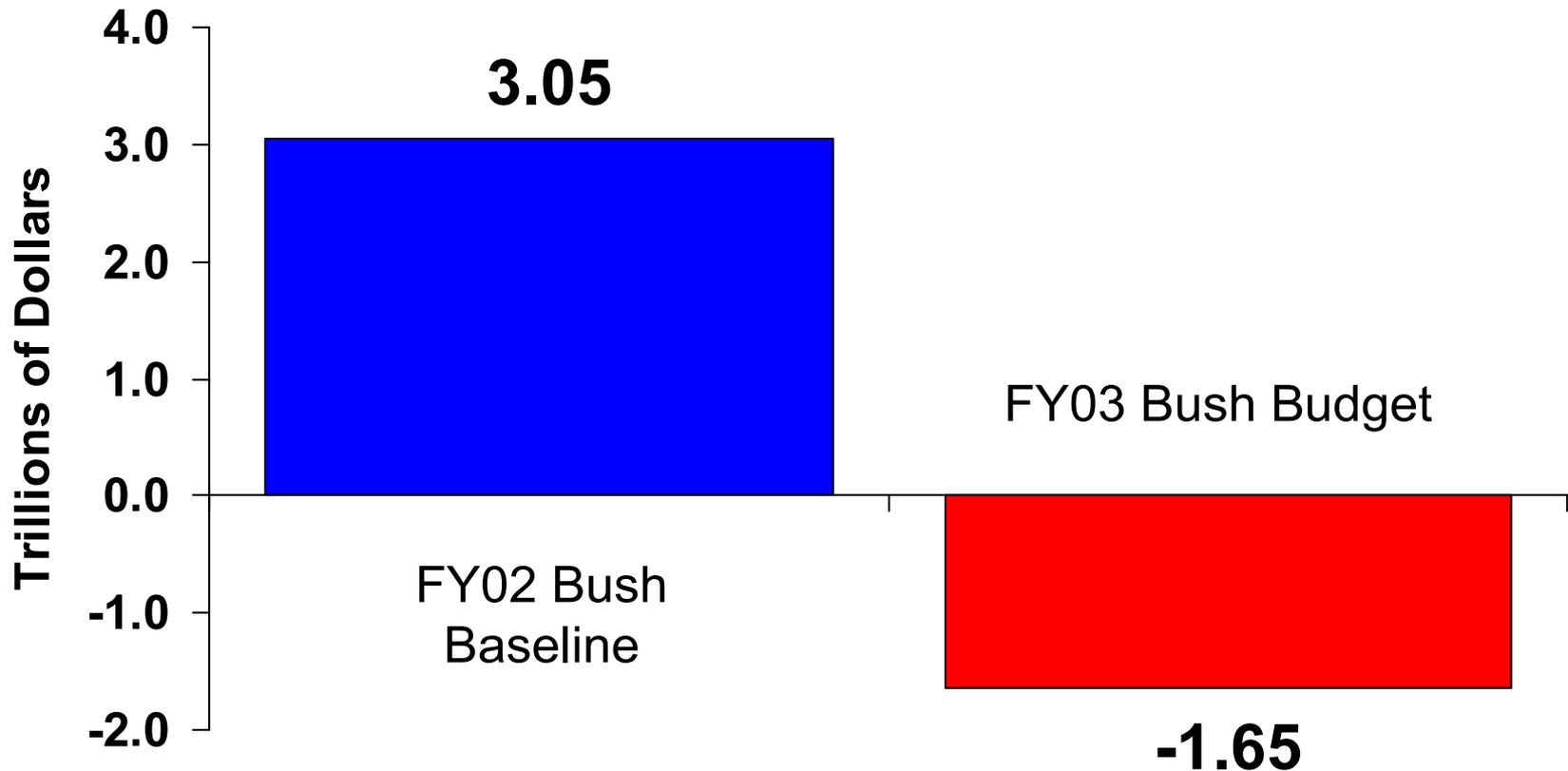
\* Includes additional debt service payments.

# New Tax Cuts Make a Bad Situation Worse

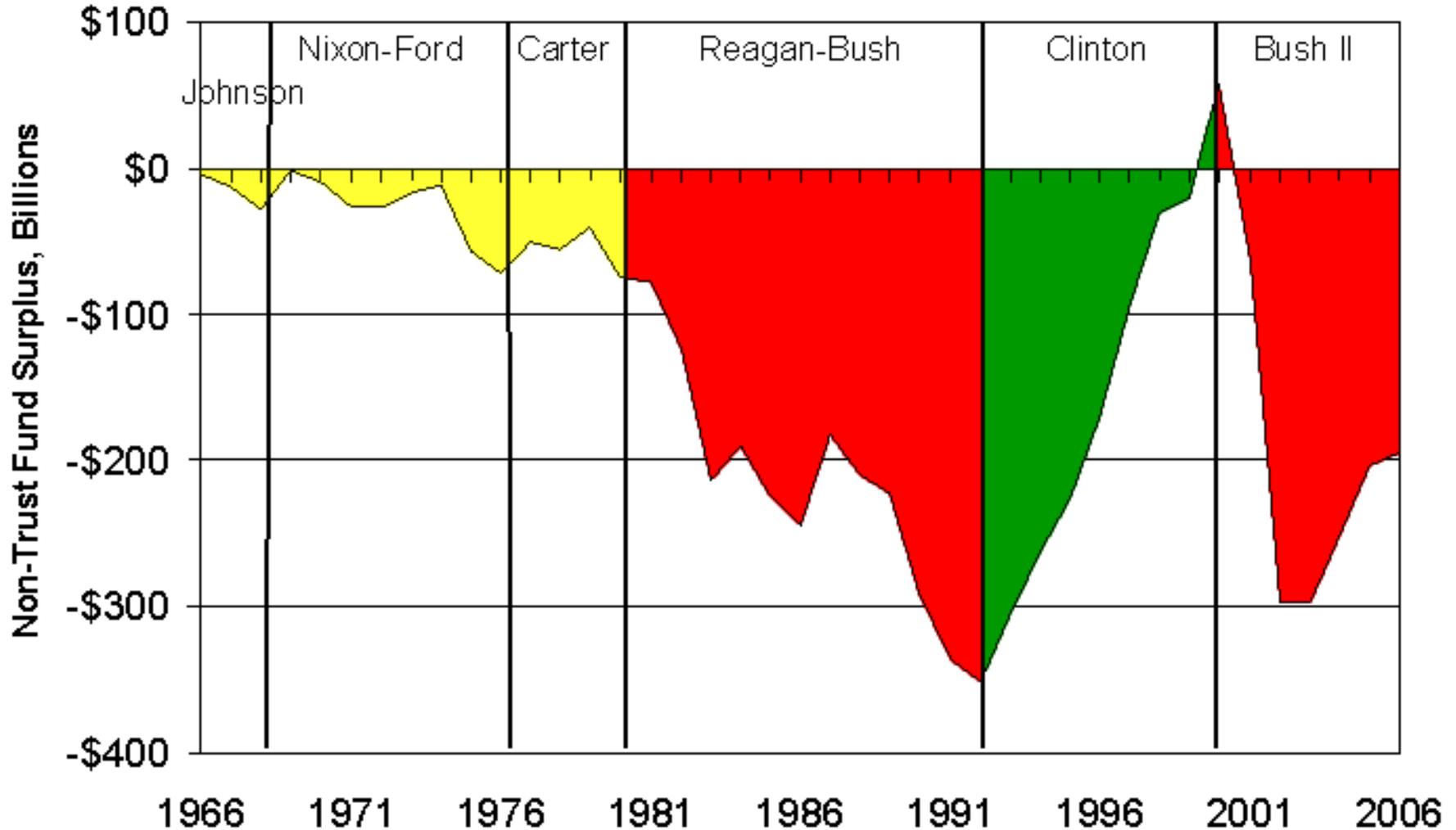


# Republicans Spend the Social Security Surplus

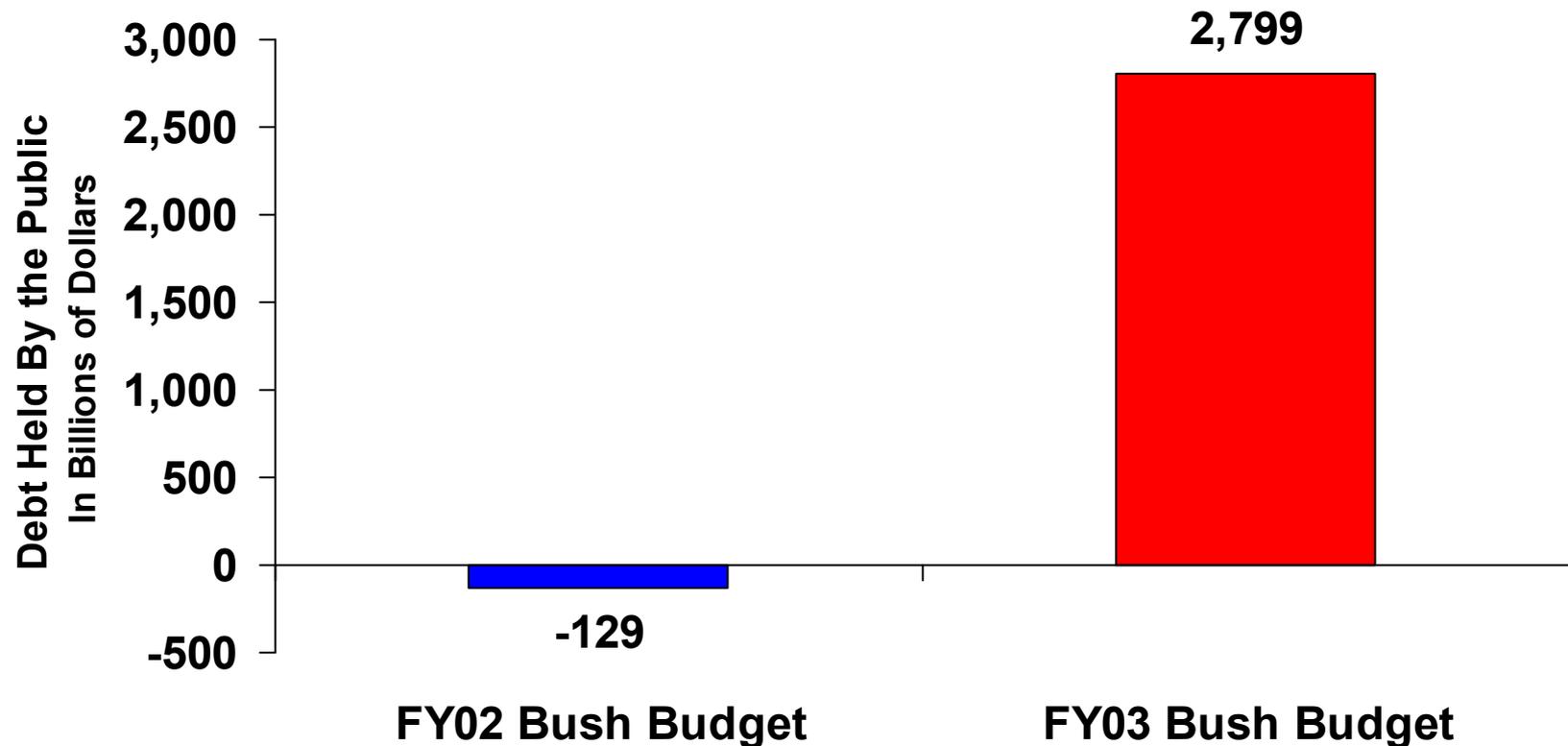
Total Non-Social Security Surplus, '02-'11



# Republicans Raid Social Security and Medicare

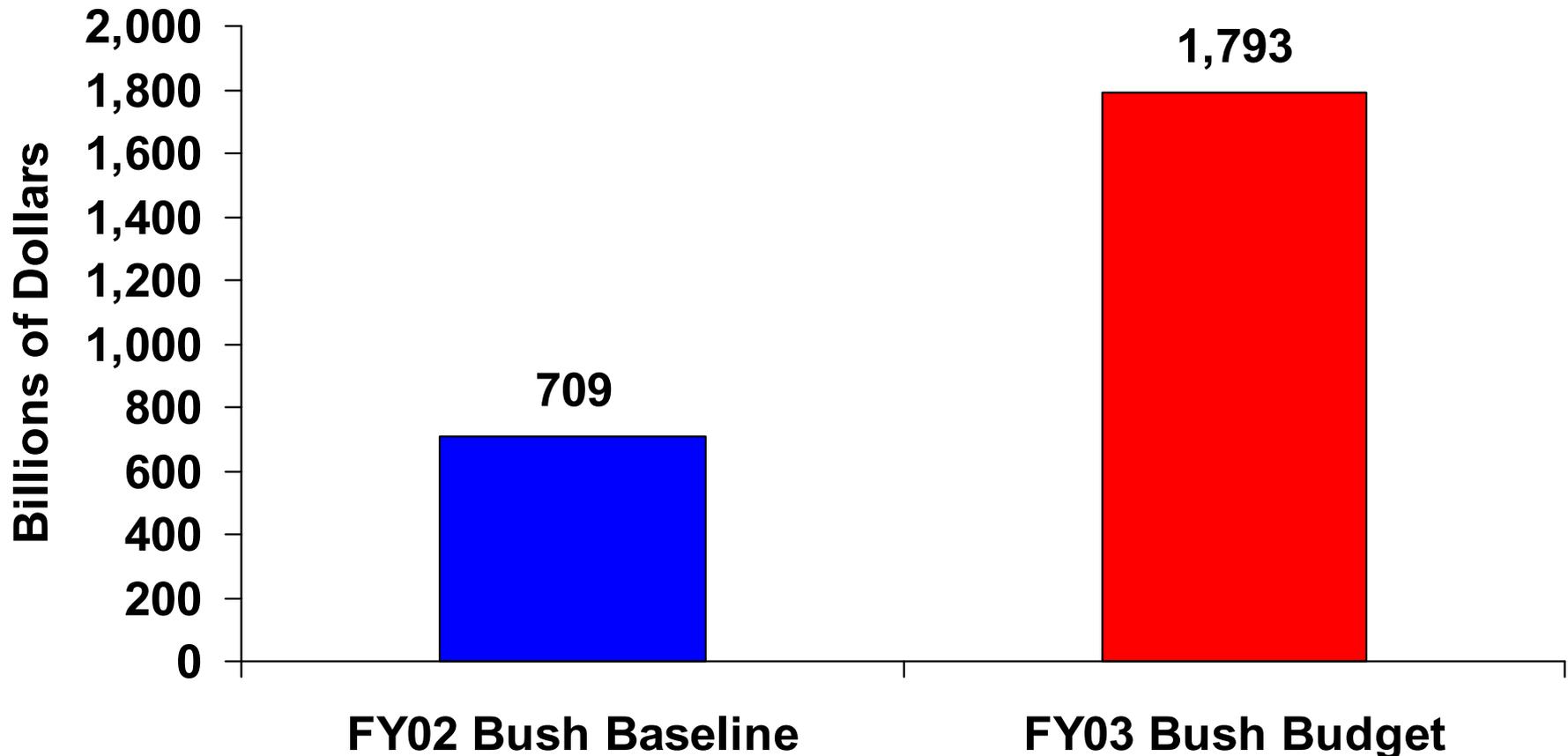


# From Debt-Free to \$2.8 Trillion in Debt in 2011

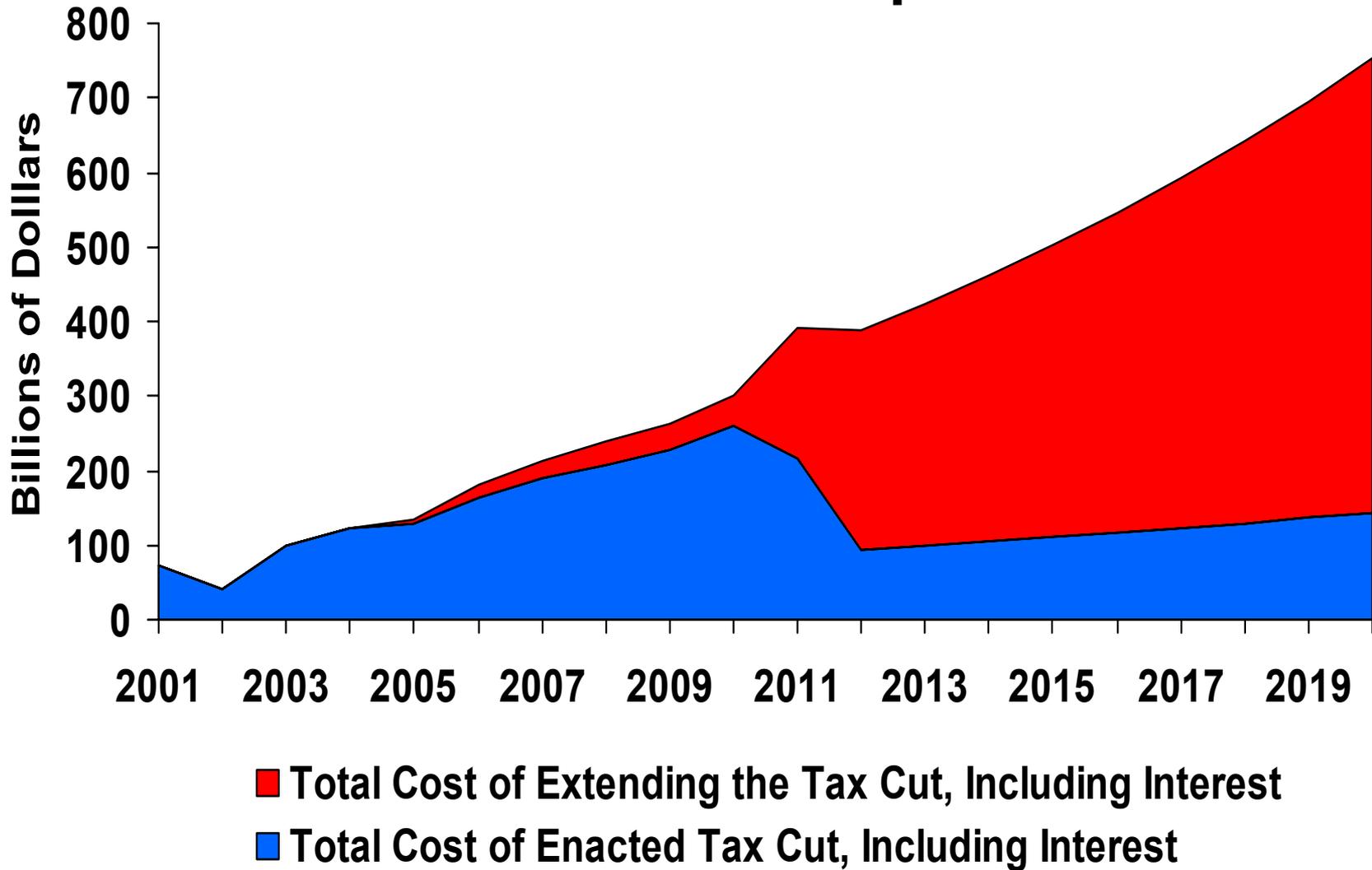


# Wasted Resources: Interest Payments Then and Now

2002-2011 Totals

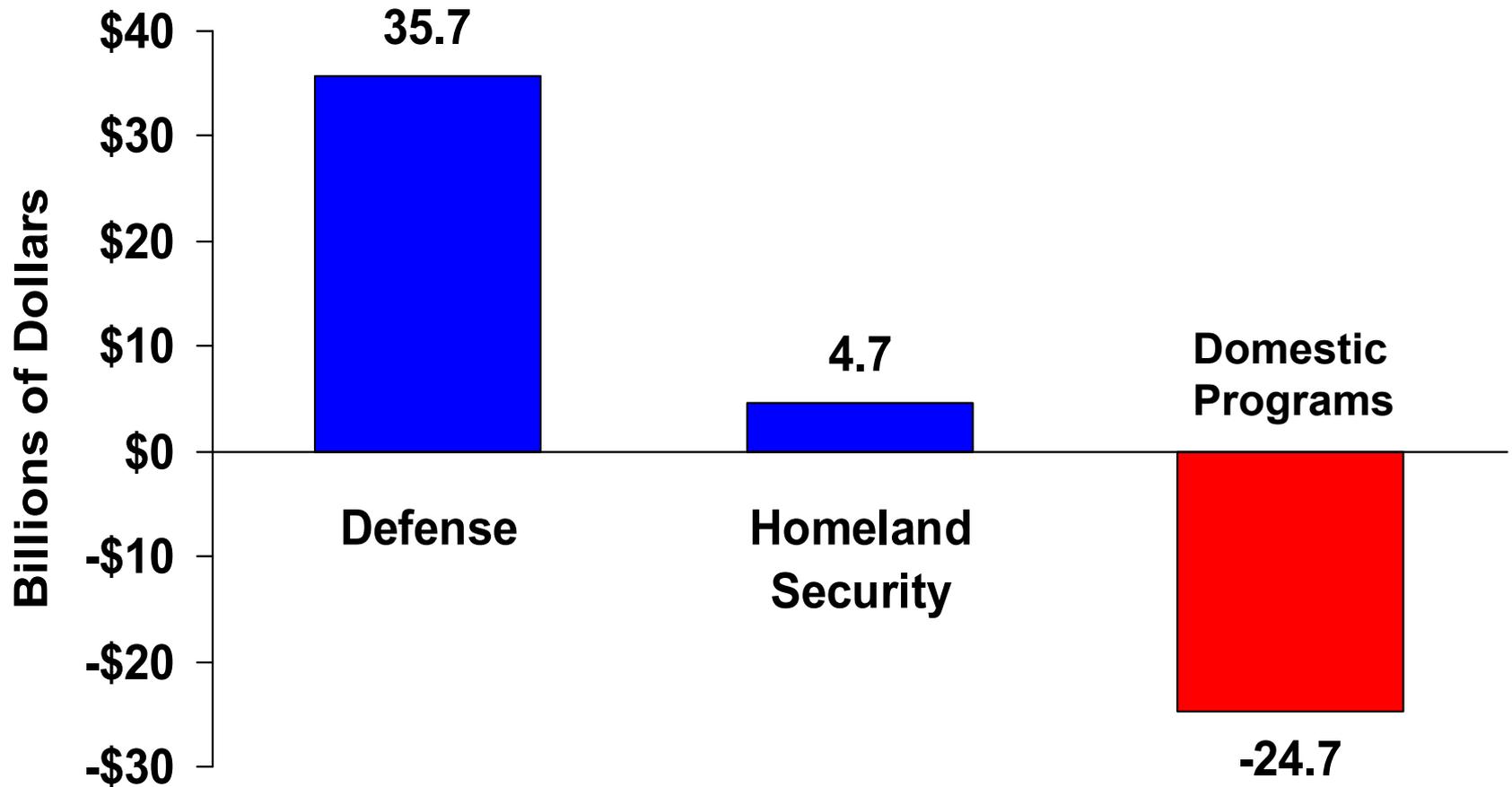


# Twenty-Year Projection of Bush Tax Proposals

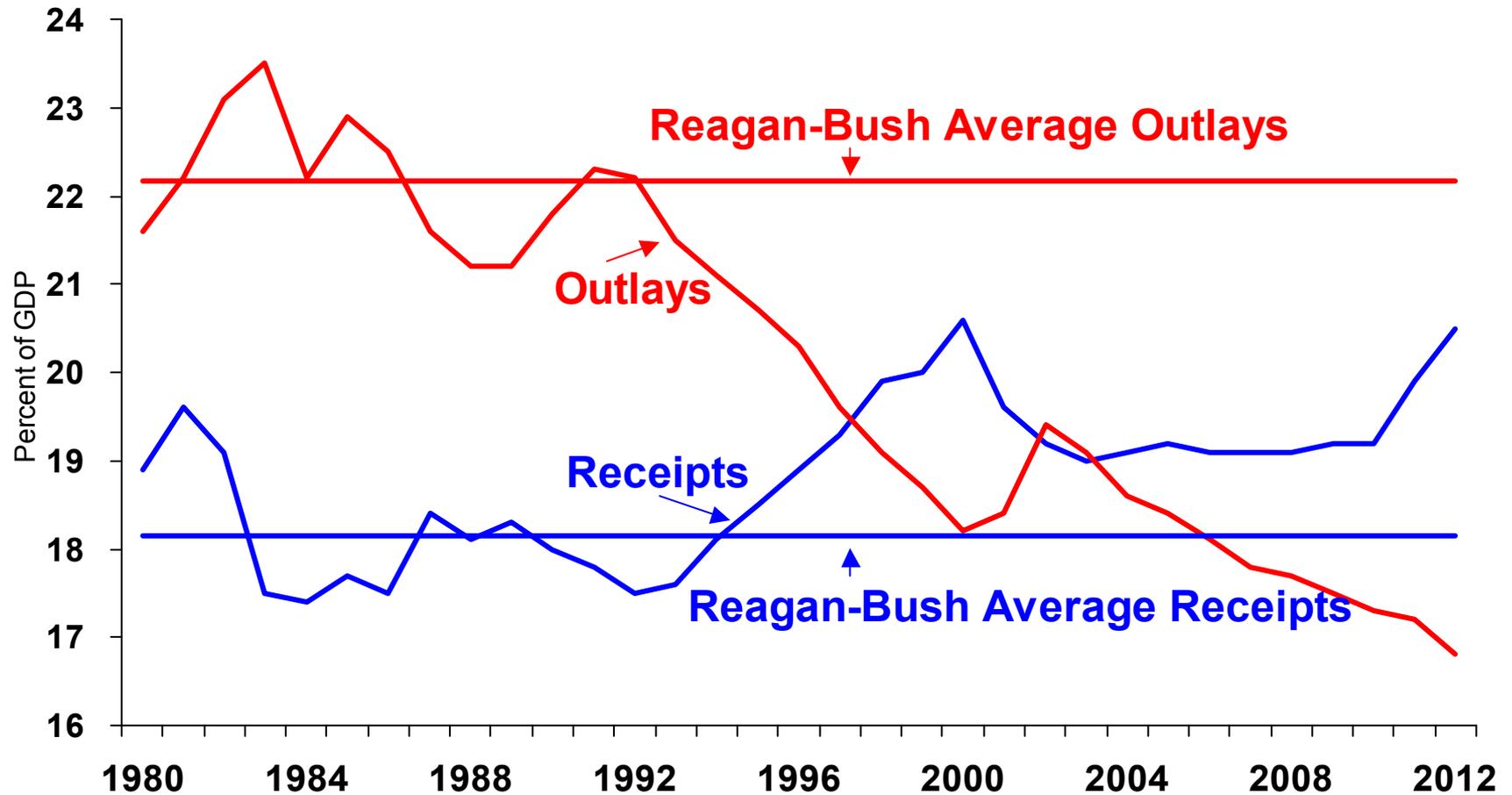


# Discretionary Funding in the President's 2003 Budget

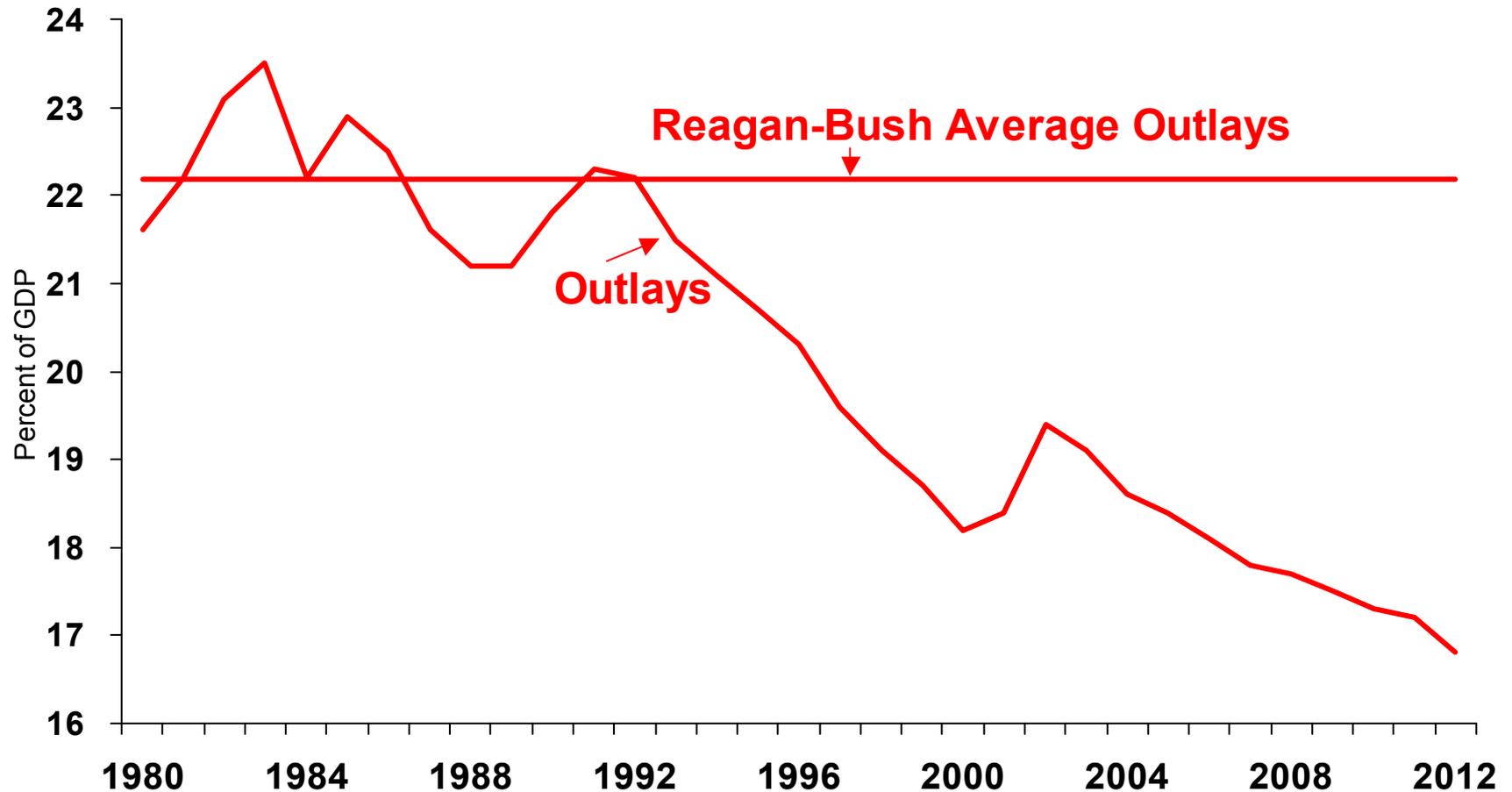
Change in purchasing power from 2002 level



# Spending Remains Well Below Its Reagan-Bush Average

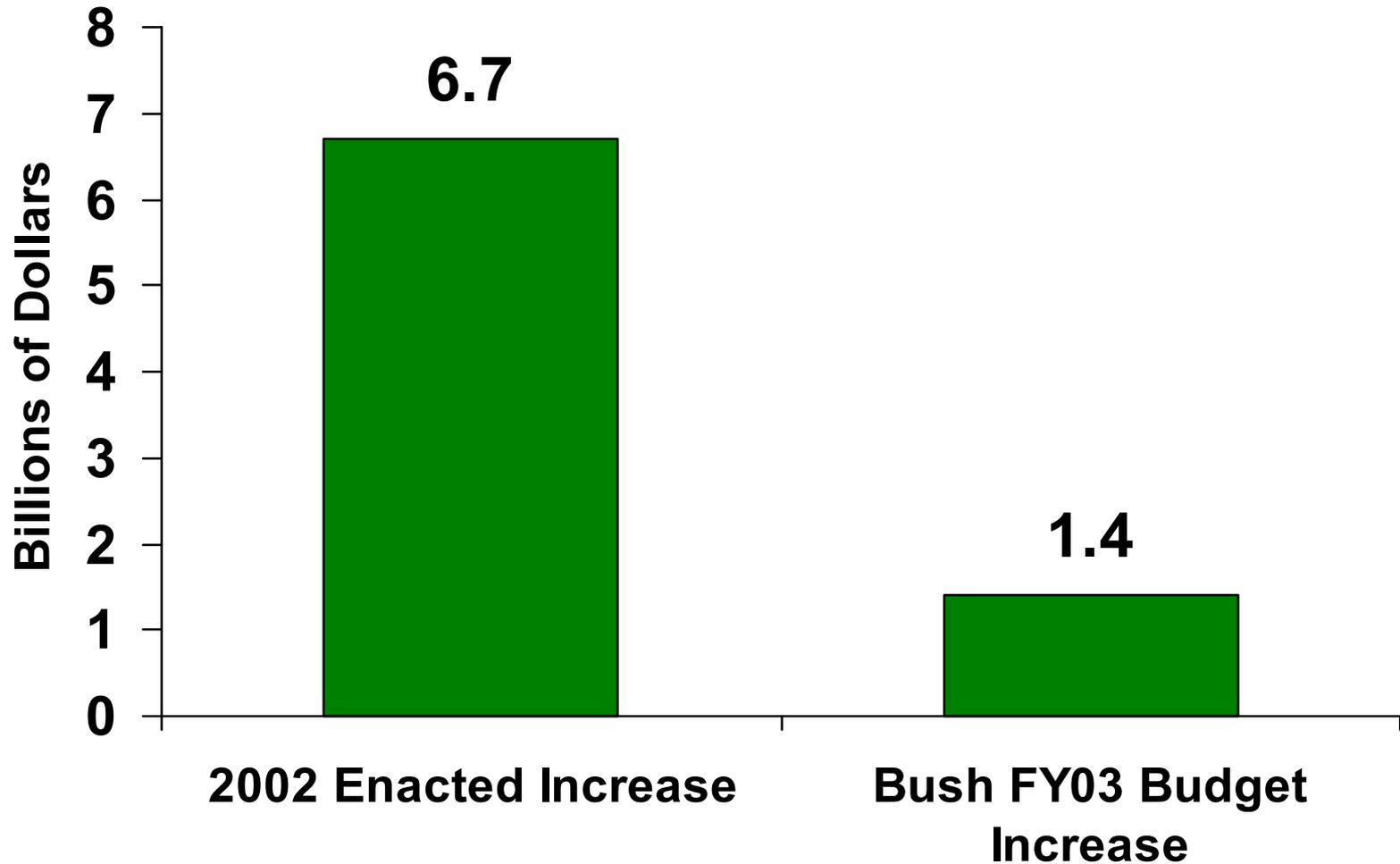


# Spending Remains Well Below Its Reagan-Bush Average

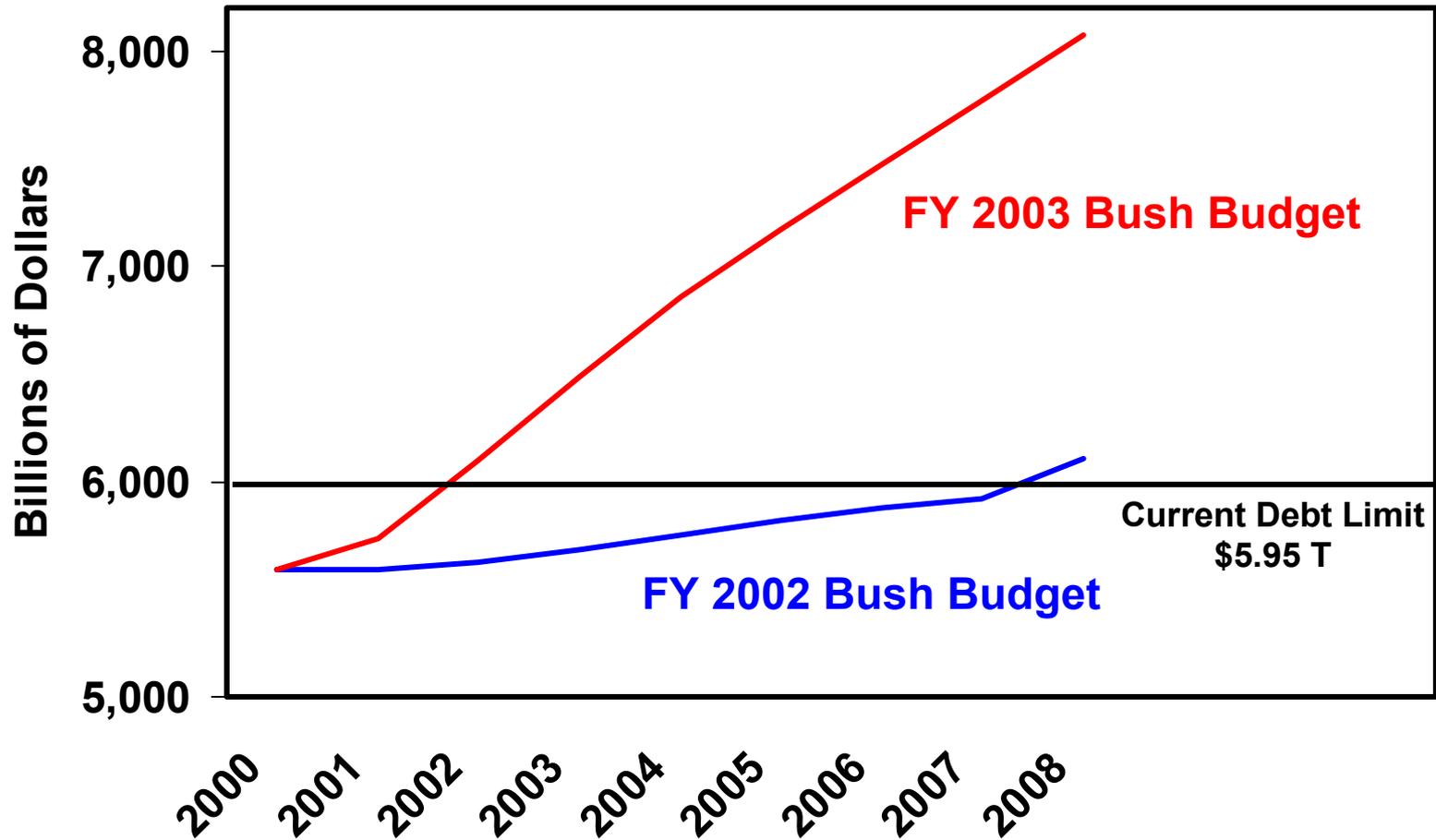


# The Bush 2003 Education Budget

Appropriations Increase Over Prior Year



# Debt Subject to Statutory Limit



# Why Do We Have to Raise the Debt Limit Now Instead of 2008?

